IRS Oversight Board

Annual Report to Congress

2011

May 2012

IRS Oversight Board
Annual Report to Congress
2011

May 2012

Table of Contents

Appendices

Message from the Internal Revenue Service Oversight Board

The Internal Revenue Service (IRS) Oversight Board is pleased to have the opportunity to report to the President, Congress, and taxpayers on the progress the IRS is making in achieving its mission: to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

The IRS' strategic goals and strategic foundations are established in the *IRS Strategic Plan 2009-2013*, approved by the IRS Oversight Board in June 2008, and are as follows:

- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

It is in the national interest, as well as the personal interest of every taxpayer, that the IRS is successful in achieving these goals. By making it easier for taxpayers to understand, calculate, and report their tax obligations, and to remit payment conveniently, the IRS can reduce the administrative burden borne by taxpayers. During the last several years new tax code provisions designed to stimulate the economy and provide economic assistance to taxpayers have been enacted, making the tax code even more complex. As a result, it is more important than ever for the IRS to help taxpayers understand their tax obligations and the economic assistance the tax code can provide.

In addition, taxpayers who do not meet their tax obligations cost the US government an estimated $385 billion every year. To the extent that the IRS can reduce this uncollected tax revenue—or tax gap as it is known—economic benefit is provided to the vast majority of taxpayers who pay what they legally owe. In short, the IRS must put equal balance on its two strategic goals: it must make compliance easier and more understandable while enforcing the tax laws fairly and effectively.

This report has a dual focus. First, it reports on the IRS' performance during the past year. Secondly, it also reports on the agency's progress in meeting the goals and strategic foundations established in the *IRS Strategic Plan 2009-2013*.

The state of tax administration in fiscal year (FY) 2011 was marked by some significant achievements as well as some challenges. Because of the enactment of late tax legislation, the IRS was forced to delay the start of the filing season for approximately nine million taxpayers. By mid-February 2011 the IRS was able to process all returns.

The year was also notable for some positive developments, including the rollout of the IRS' first smart phone application, the implementation of the Preparer Tax Identification Number (PTIN) for registered tax return preparers, a significant growth in the number of individual tax returns filed electronically, and the administration of a number of complex tax law changes.

The level of service (LOS) on IRS toll-free telephones during FY2011 was 70 percent, a drop of four percentage points over the 74 percent achieved in FY2010, and far below the 80 percent level the Board considers acceptable for good taxpayer service. However, despite the low LOS, the IRS continued to achieve high accuracy rates for telephone inquiries.

IRS enforcement contacts, such as written notices, correspondence examinations, or field examinations, were lower than FY2010. Most of the decline can be attributed to reduced math error notices, a frequent means to correct taxpayer errors associated with the First Time Homebuyers Credit in FY2010.

The overall exam coverage rate for individual taxpayers was generally flat relative to FY2010, but the rate of examinations for taxpayers with income over $1 million continues to grow. Corporate examinations grew in FY2011 compared to FY2010.

Turning our attention to the longer-term, strategic perspective, the IRS Oversight Board has previously reported that the tax administration system has two serious systemic weaknesses that require attention: the tax gap and IRS' archaic information technology (IT) systems. The IRS made notable progress with its IT modernization program, but the tax gap continues to be a serious problem that requires attention. Reductions in IRS service and enforcement resources in FY2011 and FY2012 will hinder the IRS' efforts to reduce the tax gap.

The IRS released an updated estimate of the tax gap in January 2012 based on an analysis of tax year 2006 returns. The gross and net tax gap rose as a result of the overall growth in the US economy through 2006, but the overall voluntary compliance rate remained approximately the same at 83 percent. Although the IRS has some relatively new programs underway that are intended to reduce the tax gap, neither the Oversight Board nor the IRS can determine with any degree of certainty whether the IRS is making progress in this regard.

To obtain better insight into how specific programs impact compliance, the IRS needs to develop additional performance measures to evaluate the effectiveness of IRS programs such as preparer regulation, new information reports for merchant payment cards and stock basis, the Compliance Assurance Process (CAP) program, and Offshore Voluntary Disclosure programs. Such measures would provide the data necessary to make more informed management and funding decisions.

In January 2012, the IRS implemented daily account processing, a major element of the Customer Account Data Engine (CADE) 2 program and a foundational step to further IT systems improvement. That same month, the IRS also updated the Modernized e-File (MeF) program to accept all Form 1040 returns, and associated schedules and forms, for the first time. In 2012, the MeF is expected to process the vast majority of electronic tax returns instead of the legacy e-file system.

Despite the pay freeze for federal workers and decreased budgets, the 2011 IRS Employee Survey results showed the employee engagement index—which measures the degree of employees' motivation, commitment and involvement in the mission of the organization—and the job satisfaction index both remained stable compared with last year, with no erosion of the gains achieved over the past few years. The IRS is now ranked third out of 15 large agencies (those with over 20,000 employees) in the employee engagement index developed from the Office of Personnel and Management (OPM) Employee Viewpoint survey.

As part of its statutory responsibility to oversee the IRS, the Board maintains a strong interest in the discipline of Enterprise Risk Management (ERM). The tax administration system makes a critical contribution to the country's economic well-being, and the Board believes there is often an under-appreciation of the importance of that contribution. Any breakdown of the tax administration system, for whatever reason, could easily have adverse national repercussions. Potential risks that could adversely impact tax administration in the next several years include decreasing resources, inadequate resources for implementing tax provisions of the Patient Protection and Affordable Care Act, and tax code complexity.

IRS resources continue to be stretched thin, and the current trend of decreased resources coupled with increased complexity exacerbates the problem. The Board cannot predict that a breaking point will occur, but a continuation of current trends increases the risk that the IRS will experience serious problems in the future.

Preface

In June 1997, the National Commission on Restructuring the Internal Revenue Service (IRS) recommended the creation of an IRS Oversight Board to serve as a new governance and management body that would focus on strategic issues facing the IRS. The following year, the IRS Restructuring and Reform Act of 1998 (RRA 98) established the Board to "oversee the Internal Revenue Service in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws or related statutes and tax conventions to which the United States is a party."[1]

The IRS Oversight Board has statutory responsibilities to review and approve strategic plans of the IRS; review IRS operational functions; review the selection, evaluation, and compensation of IRS senior executives; review and approve the budget request of the IRS prepared by the Commissioner; and to review and approve plans for major reorganizations.

The Board is composed of nine members; seven come from "private life" and are appointed for five-year terms by the President and confirmed by the Senate. These private life members have professional experience or expertise in key business and tax administration areas. Of the seven, one must be a full-time federal employee or a representative of employees. The Secretary of the Treasury and the Commissioner of Internal Revenue also serve as members of the Board. However, to preserve its independent oversight responsibilities and objectivity, neither the Secretary nor the Commissioner approve the Board's annual report, although their comments and guidance are both solicited and welcomed.

This report satisfies a statutory requirement in RRA 98 for the Board to report annually to the President and Congress. It contains a summary of the IRS' performance in fiscal year (FY) 2011, a discussion of the strategic challenges facing the IRS, and discussion of the measures the Board uses to assess the IRS' performance and its progress in achieving the strategic plan.

[1] Public Law 105-206, Title 1, Section 1101.

I. Introduction

This report has a dual focus. First, it reports on the IRS' performance during the past year. Secondly, it also reports on the agency's progress in meeting the goals and strategic foundations established in the *IRS Strategic Plan 2009-2013*:

- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

Section II provides an overview of IRS performance during FY2011 using productivity, output, and outcome measures.

Section III provides the Oversight Board's assessment of the strategic challenges facing the IRS and actions the IRS is taking to meet its long term goals.

Section IV identifies the measures the Oversight Board and IRS use to evaluate its success in achieving the goals identified above. Section V provides a conclusion.

II. Fiscal Year 2011 IRS Performance

The state of tax administration in fiscal year (FY) 2011 was marked by some significant achievements as well as some challenges. Because of the enactment of late tax legislation, the IRS was forced to delay the start of the filing season for approximately nine million taxpayers, namely those who itemized deductions on Schedule A, claimed certain education credits, or claimed educator expense deductions. By mid-February 2011, the IRS was able to process all returns.

The year was also notable for some positive developments, including the rollout of the IRS' first smart phone application, the implementation of the Preparer Tax Identification Number (PTIN) for registered tax return preparers, a significant growth in the number of individual tax returns filed electronically, and the administration of a number of complex tax law changes, including the Residential Energy Property Tax credit and provisions of the Tax Relief Act of 2010.

Appendix 1 provides a summary of major legislative and administrative tax provisions enacted during the last four years and the challenges that each presented to tax administration during the 2007 through 2011 filing seasons. In addition to describing the impacts associated with implementing these provisions, the appendix provides a short assessment of IRS' performance in implementing many of them made by either the Government Accountability Office (GAO) or the Treasury Inspector General for Tax Administration (TIGTA).

The following paragraphs present measures to evaluate the IRS' performance during FY2011 for both its service and enforcement activities. In addition, Appendix 2 provides a full array of performance measures the Oversight Board uses to evaluate IRS' annual performance.

Taxpayer Service Trends in FY2011

The IRS serves taxpayers by providing three major operations during the filing season: answering taxpayer inquiries over its toll-free telephone system, providing information and services to taxpayers through its Internet site (*www.irs.gov*), and processing tax returns and refunds. Table 1 shows the number of transactions associated with each of these three service operations.

Table 1. IRS Major Service Transactions During the 2008 to 2011 Filing Seasons

Major IRS Service Transactions	Filing Season (FS)			
	2008	2009	2010	2011
Toll-free Telephone Volume (in millions)				
Assistor calls answered	27	26	24	23
Abandoned calls	34	21	21	23
Busies and IRS disconnects	14	5	1	1
Automated calls answered	43	25	32	37
Total calls	118	78	77	83
www.irs.gov activity (in millions)				
Total visits	292	235	239	250
Downloads	136	137	157	166
Searches	125	263	277	312
"Where's My Refund?" inquiries	38	53	64	73
Individual Returns and Refunds Processed (in millions unless otherwise indicated)				
Electronic returns	89	94	97	109
Paper returns	62	45	40	30
Total returns	151	139	137	140
Refunds	105	109	107	107
Dollars refunded	$248 billion	$298 billion	$312 billion	$303 billion
Average refund	$2,350	$2,725	$2,915	$2,836

Source: GAO and IRS

Overall, transaction volumes during the 2011 filing season increased marginally compared to the 2010 filing season. There were two notable developments, both associated with Electronic Tax Administration: a noticeable increase in the number of electronically-filed individual tax returns and more taxpayers visited the IRS web site, *www.irs.gov*, for various reasons.

By most measures, the IRS delivered a generally successful 2011 filing season, as shown in Table 2, which displays key performance measures for taxpayer service. However, one exception was the level of service (LOS) on IRS toll-free telephone lines, which decreased from the 2010 level of 74 percent to 70 percent. Although the IRS met its goal for LOS based on available funding, it was still well below the 80 percent level the Board considers acceptable, and which was last achieved in 2007. As shown in Table 2, telephone service has been well below 80 percent for four years, and this decline of service since 2007 is particularly harmful to taxpayers as the tax system grows more complex with each passing year. When faced with growing complexity, taxpayers who want to do the right thing but are unable to obtain the right answers may be more likely to unknowingly file incorrect returns. Such taxpayers need assistance. Section III, Strategic Challenges in Tax Administration, further addresses the issue.

Table 2. IRS Major Service Performance Measures During the 2008 to 2011 Filing Seasons

	2008	2009	2010	2011
Assistor LOS (*in percent for entire fiscal year*)	53	70	74	70
Assistor LOS (in percent during filing season)	57	68	76	72
Average wait time in minutes (*during filing season*)	8.6	8.4	9.5	11.7
Tax law accuracy rate (*Note 1*)	90.3%±0.9	92.5%±0.9	92.4%±0.8	93.4%±0.6
Accounts accuracy rate (*Note 1*)	93.5%±0.4	95.1%±0.4	95.6%±0.4	96.0%±0.3
Refund timeliness (*percent delivered within 45 days*)	99.1	99.2	96.1	99.4

Source: IRS and GAO

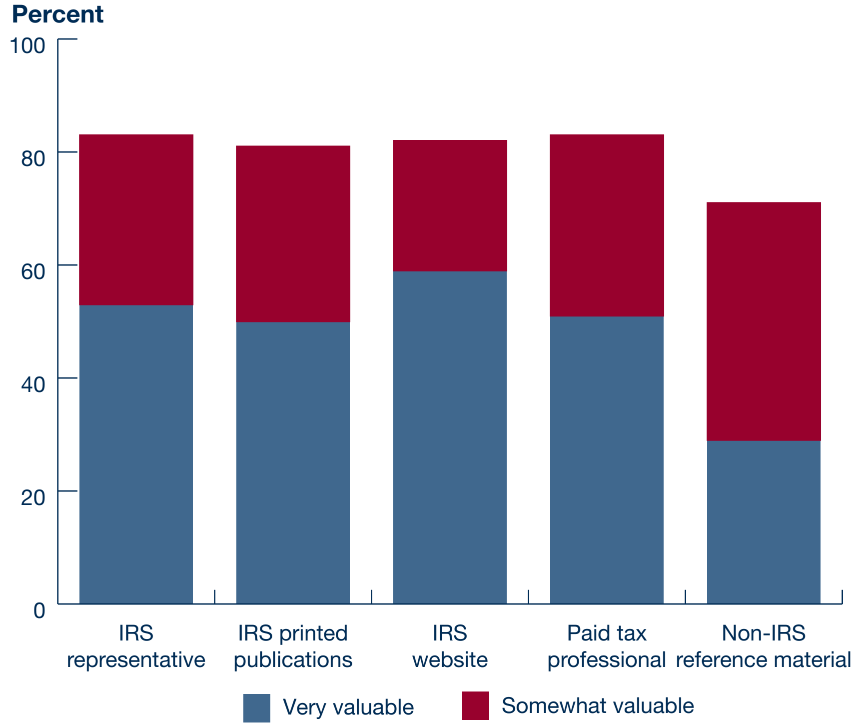
Note 1: Based on representative samples from January through June. The percentage of calls in which telephone assistors provided accurate answers for the call type and took the appropriate action, with a 90 percent confidence interval.

The GAO has recommended that the IRS re-evaluate its measure on refund timeliness[2,] and the Board concurs. The current measure is a carryover from a time when most tax return filing was done by mailing paper tax returns to the IRS, and refunds were issued via mailed checks. With individual e-filing rates close to 80 percent, the IRS now able to process tax returns on a daily basis, and with most refunds made via electronic deposit, a 45-day goal for issuing refunds an inappropriate standard. Moreover, at the start of the 2012 filing season, taxpayers and tax preparers voiced a number of complaints about delays in issuing refunds caused by additional checks for refund fraud. The development of realistic, meaningful goals for refund timeliness would greatly clarify the situation.

With the growing complexity of the tax code, the public's reliance on the IRS to provide information to taxpayers about their tax obligations needs to be recognized. This reliance is illustrated in Figure 1, which shows the extent to which the public values the IRS as a source of information about taxes, and demonstrates why the Board places such high emphasis on the IRS' ability to deliver timely and accurate service to taxpayers.

[2] GAO, GAO-12-176, *2011 Tax Filing*, December 2011.

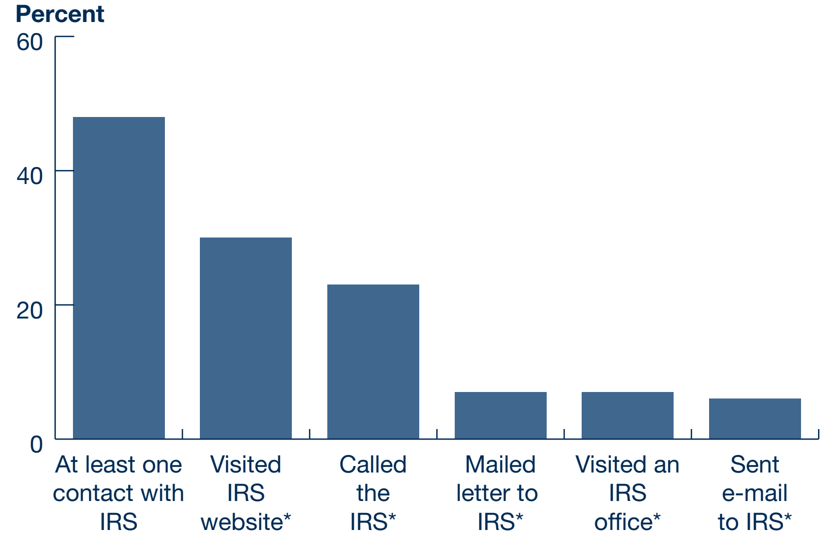
Figure 1. Percent of Public Who Say Certain Sources are Very or Somewhat Valuable for Tax Advice or Information



Source: IRS Oversight Board Taxpayer Attitude Survey

To present a more complete picture of taxpayers' use of the various service channels offered by the IRS, additional data is presented in Figure 2 on the extent to which taxpayers used various methods of contacting the IRS to obtain information or resolve a tax matter in 2011. Almost half of all taxpayers had at least one contact with the IRS during the year, so the importance of taxpayer service cannot be taken lightly.

Figure 2. Percent of Public Contacting the IRS During 2011

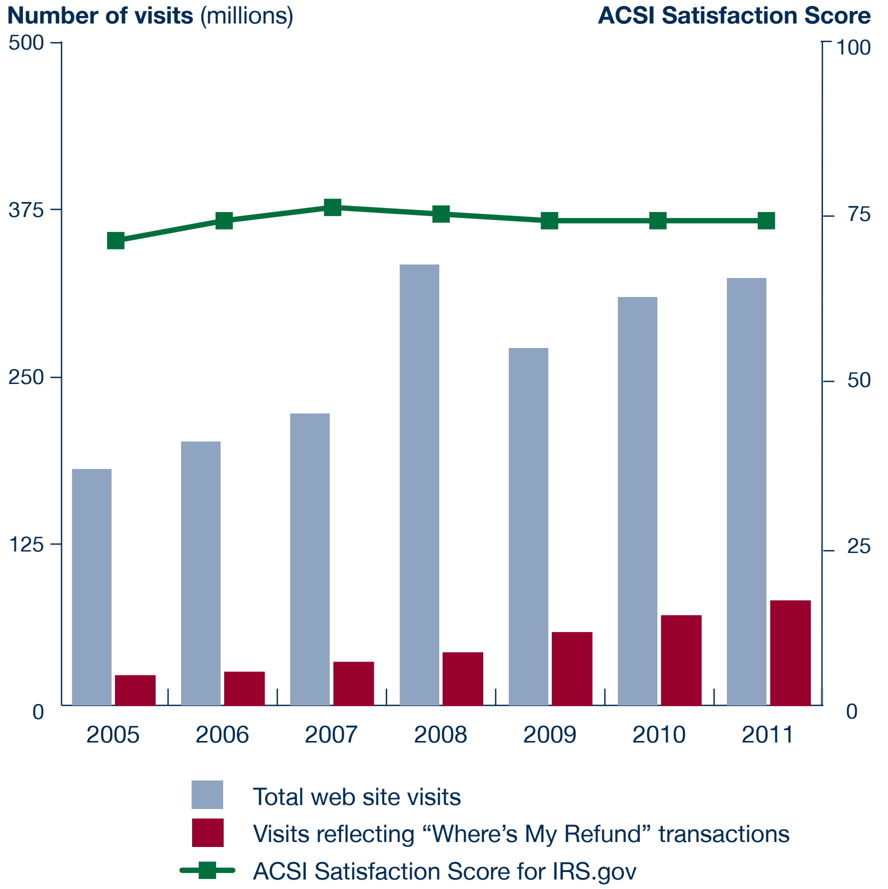


*These percentages are not mutually exclusive.
Source: IRS Oversight Board Taxpayer Attitude Survey

IRS Web Site Service

As shown in Figure 2, the IRS web site is the most popular channel for taxpayers to use to obtain information or resolve a tax matter. Figure 3 provides more detail on taxpayer use of this web site, which has grown since 2005, along with customer satisfaction ratings for *www.irs.gov* from the American Customer Satisfaction Index (ACSI) provided by the University of Michigan.

Figure 3. IRS Web Site Usage and Customer Satisfaction Ratings, 2005 to 2011



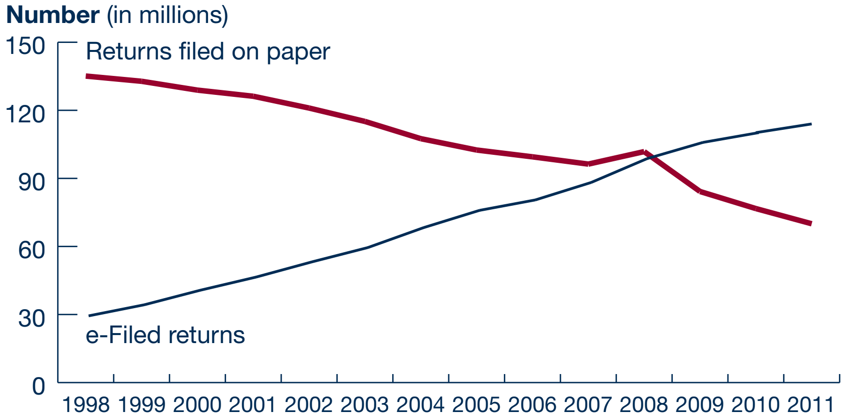
Source: IRS and www.theasci.org

IRS Return Processing

The IRS offers taxpayers two methods to file their tax returns: electronic or paper. Because of the many benefits electronic filing offers taxpayers and the IRS, the agency has a goal to make electronic filing the method of choice for all types of major tax returns, whether the returns come from individuals, businesses, or non-profit organizations. The overall growth in e-filed returns, and the corresponding decline in paper filings is depicted in Figure 4.

In 2011, the number of individual tax returns filed electronically increased at a rate of 13 percent (from 98.3 million to over 111 million), the strongest annual increase for that return series since 2004, as shown in Figure 5. This increase can be attributed in part to the mandate requiring tax preparers who file more than 100 individual returns to file electronically. The e-file rate for individual returns from paid preparers is now around 89 percent, up an impressive ten net percentage points from 2010. In addition, the online filing rate for individual returns from self-preparers using tax software has increased about six net percentage points in 2011 and now stands at approximately 64 percent, also an impressive gain.

Figure 4. Number of Major Tax Returns Filed: e-Filed vs. Paper



Source: IRS

Although electronic filing of individual tax returns has shown steady growth for over ten years, electronic filing of business and tax exempt tax returns has grown at a slower pace, as illustrated in Figure 5. As reported earlier by the Oversight Board, reducing the number of business employment tax returns filed on paper, especially Form 941 returns, is a particularly significant challenge to the IRS to meet its strategic goal of having 80 percent of major tax returns filed electronically by 2012.[3]

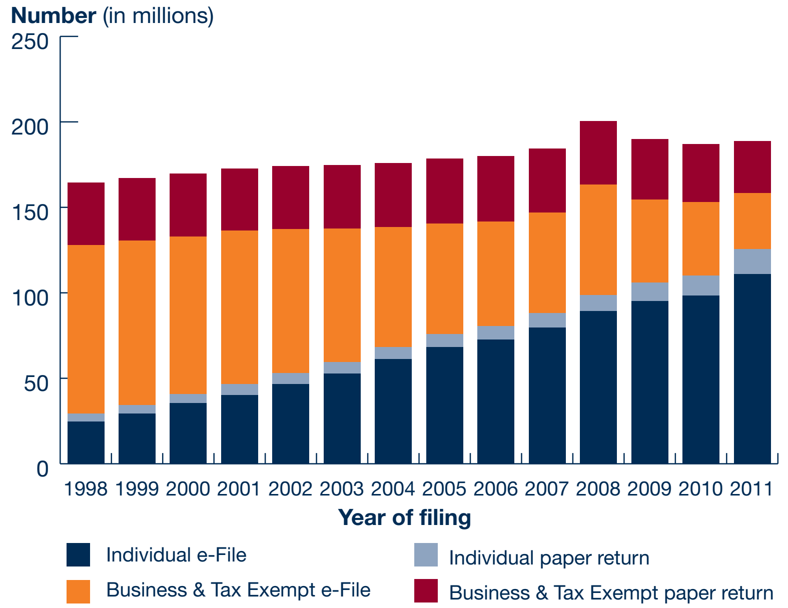
IRS In-Person Assistance

The IRS serves taxpayers in person at walk-in offices, also known as Taxpayer Assistance Centers (TACs), which serve over six million taxpayers a year. The Oversight Board's *2011 Taxpayer Attitude Survey* indicated that 61 percent of respondents say it is very important that the IRS provide office locations for walk-in assistance, with another 25 percent indicating this service is somewhat important.

The IRS also enables free tax return preparation assistance using trained volunteers through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. During the last

[3]IRS Oversight Board, *IRS Oversight Board Electronic Filing 2011 Annual Report to Congress*, December 2011.

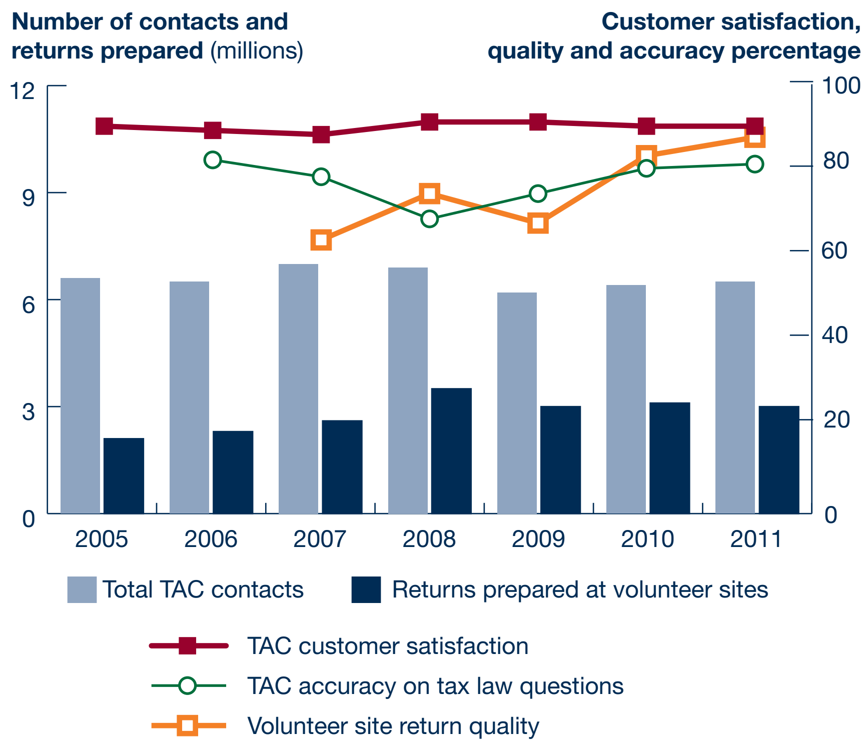
Figure 5. Major Tax Return Types Filed by Taxpayer Type and Filing Method



Source: IRS

several years the IRS has increased its oversight of volunteer sites so that the quality of tax returns prepared at these sites has improved from 64 percent in 2007 to 87 percent in 2011. Measures for the IRS walk-in offices and volunteer tax preparation programs are shown in Figure 6.

Figure 6. IRS In-Person Assistance Measures During FY2005 to FY2011



Source: IRS

Enforcement Trends in 2011

Enforcement actions generally have a dual purpose: to bring the taxpayer into current compliance and to influence the taxpayer to be compliant in the future. In contrast with taxpayer service programs, which are preventative and broadly based, enforcement is generally case-specific and corrective in nature.

The IRS enforces the tax law in a number of ways. For individual taxpayers, some of the more common methods include:

- correcting a mistake made by the taxpayer, using IRS' authority to correct math errors and related problems on a return as filed;
- sending a notice to a taxpayer that proposes changes to tax liability because the IRS has an information return that indicates a taxpayer has unreported income, and calculates additional taxes the IRS believes are owed;
- conducting an examination by mail, known as a correspondence exam;
- notifying a taxpayer that he or she is being subjected to a face-to-face (field) audit; and
- sending notices and making phone calls seeking returns from taxpayers who have not filed.

Figure 7 shows the approximate number of these common enforcement "touches" for individual taxpayers for the period 1999 through 2011.

Prior to 2009, the total annual IRS enforcement contacts had been relatively steady at around nine million, with a few exceptions associated with years involving unique or special short-term credits. However, the last three years have seen higher than normal IRS contacts with taxpayers due to increased use of Math Error Authority (MEA) associated with the First-Time Home Buying Credit (FTHB) and Making Work Pay (MWP) credits. From 2009 to 2011, the total number of MEA notices has been 12.5, 9.4, and 6.0 million, compared to an earlier level of approximately three million. In future years, with the expiration of the FTHB and MWP credits, the total number of contacts is likely to return to earlier levels. Examinations, either in-person or correspondence, have also been generally increasing but make up a relatively small percentage of total contacts.

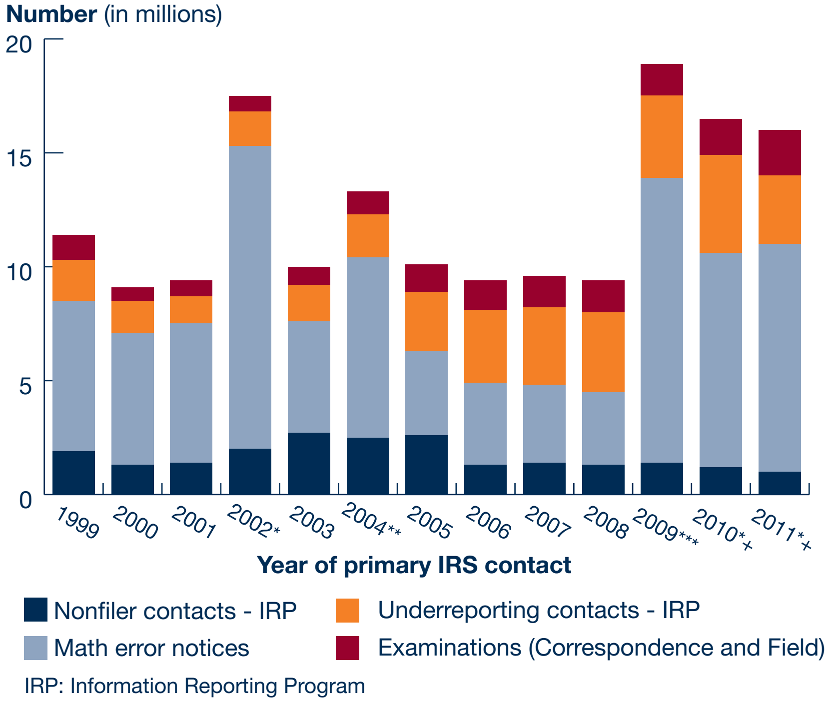
Both GAO and TIGTA have recommended that Congress authorize expanded use of MEA authority, with appropriate controls on taxpayer rights, during tax return processing.[4] Such expansion is not without issues, as the National Taxpayer Advocate has warned that such authority may jeopardize taxpayer rights.[5] Nonetheless, the expansion of MEA authority by Congress may be warranted in limited situations that are prone to fraud, with the caution that appropriate controls are provided to protect taxpayer rights.

---

[4] GAO, GAO-12-176*, 2011 Tax Filing,* December 2011 and TIGTA, TIGTA 2011-40-032*, Interim Results of 2011 Filing Season,* March 31, 2011.
[5] National Taxpayer Advocate*, 2011 Annual Report to Congress,* December 2011.

Of the four methods of “touching” taxpayers shown in Figure 7, examinations are generally the most comprehensive. Field examinations typically are more comprehensive than correspondence audits, which usually focus on a single issue. Figure 8 shows the number of examinations of individual tax returns conducted by the IRS from FY1999 to FY2011. The examination rate hit a low point in FY2000, when only 0.49 percent of all individual returns were subject to examination. Since then, the coverage rate (the percent of returns subject to examination) has doubled, and hit a twelve-year high point in FY2010 and FY2011 at 1.11 percent. Most of this expansion has been driven by a rapid rise in the number of correspondence audits, a trend that will likely continue. Strategic issues associated with the rise in correspondence audits will be addressed further in Section III.

Figure 7. Number of IRS Enforcement Contacts with Individuals



Source: IRS

* Counts in 2002 include large number of math error notices associated with one-time Rate Reduction Credit

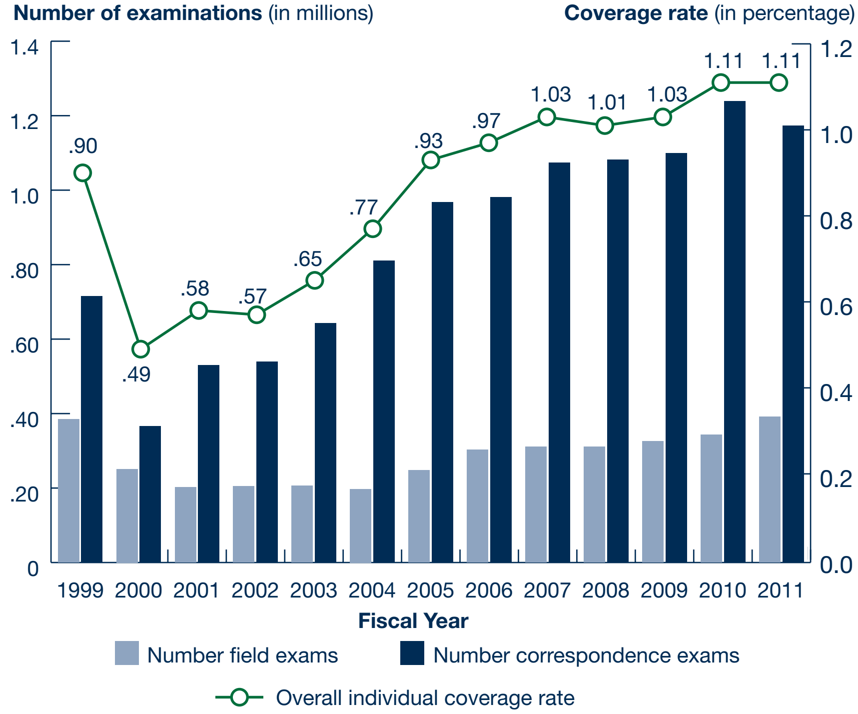
** Counts in 2004 include large number of math error notices associated with one-time advance Child Tax Credit payment

*** Counts in 2009 include large number of math error notices associated with one-time Recovery Rebate Credit

*+ Counts for 2010 and 2011 include large number of math error notices associated with new Making Work Pay Credit.

Notes: Some math error notices reflect changes made by the IRS that were in the taxpayer’s financial favor. Counts for 2002 and earlier years do not include math error notices on prior tax year returns.

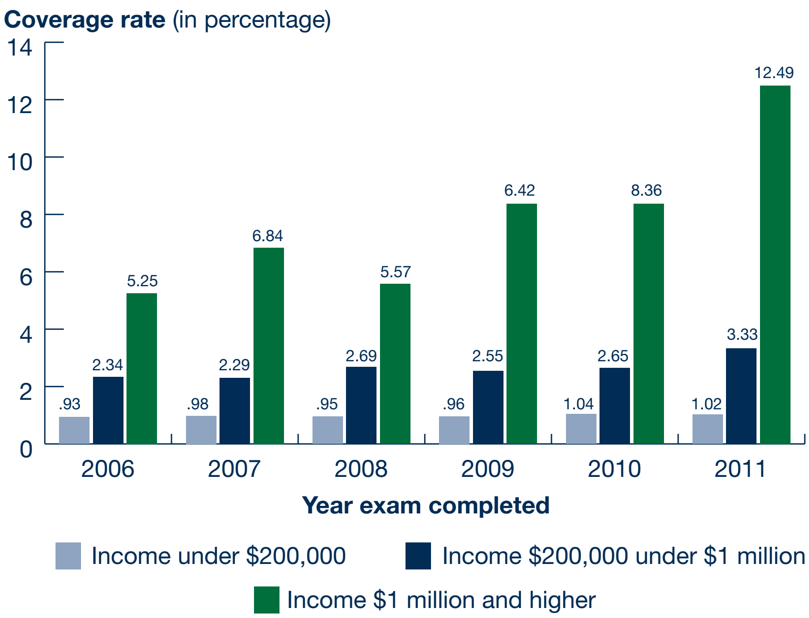
Figure 8. Individual Examination Trends FY1999 to FY2011



Source: IRS

The overall exam coverage rate for individual taxpayers has risen gradually during the last ten years (Figure 8). However, Figure 9 illustrates that the examination coverage rate for taxpayers with income over $1 million is 12 times higher than lower income taxpayers, and has nearly doubled during the past two years.

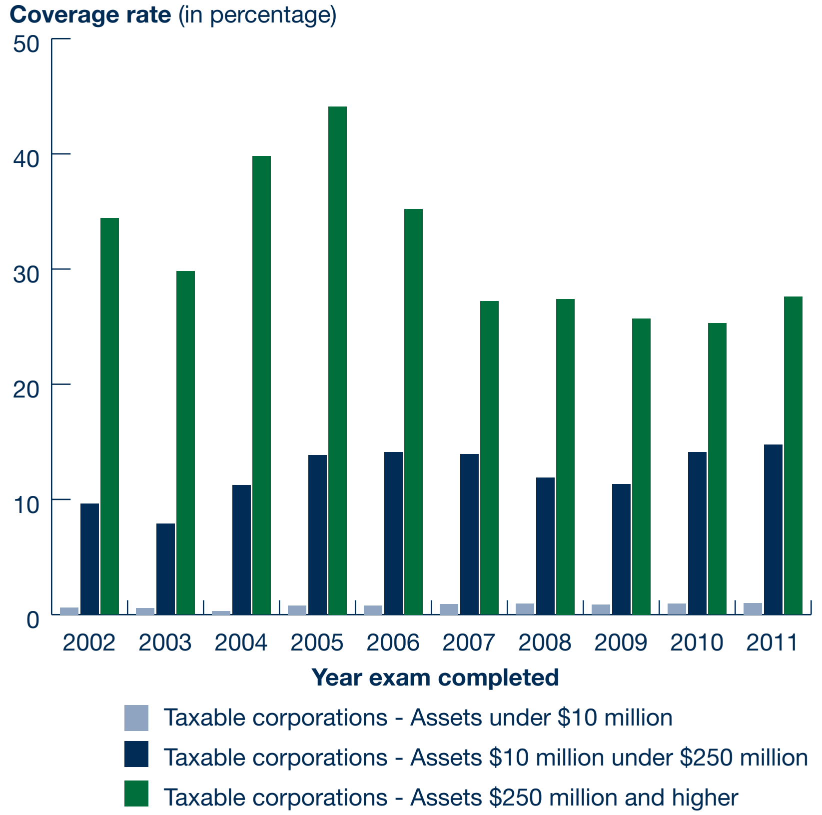
Figure 9. Examination Coverage Rates for Individual Filers by Income Range for FY2006 to FY2011



Source: IRS

The IRS' approach to examining taxable corporate tax returns (Forms 1120) follows a similar pattern, as shown in Figure 10, with corporations with larger assets having a higher examination rate. The examination rates for the largest corporations have decreased in recent years from a high point in 2005. Nevertheless, the coverage rates for these large corporations remain substantially higher than corporations in smaller asset categories.

Figure 10. Examination Coverage Rates for Taxable Corporation Returns by Asset Size



Source: IRS

Future large corporate audit activity will likely change in the next several years with the change in the Compliance Assurance Process (CAP) program discussed in the next section, as the IRS shifts some of its large business examination resources to place more emphasis on the prevention of non-compliance.

III. Strategic Challenges to Tax Administration

The IRS' mission is to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all. As part of its management process, the IRS establishes, and the Oversight Board approves, a strategic plan to achieve this mission. The latest such plan, the *IRS Strategic Plan 2009-2013*, approved by the IRS Oversight Board in June 2008, contains the following goals and objectives:

- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

The *IRS Strategic Plan 2009-2013* is the document the Oversight Board uses to hold the IRS accountable for its performance. This section evaluates the progress the IRS is making in meeting the goals and objectives identified above and describes the challenges the IRS faces. Long-term measures used to track the IRS' strategic progress are presented in Section IV.

The tax administration system has been seriously tested during the last several years as the tax code has been used extensively to stimulate the economy and provide economic relief to taxpayers. Appendix 1 summarizes major legislative and administrative tax provisions that the IRS has been required to implement from 2007 to 2011, as well as the findings of two oversight organizations that have assessed the IRS' performance in implementing these provisions. A review of Appendix 1 demonstrates the complexity of the changes the IRS was required to implement. Although the IRS has generally met these challenges, the sheer complexity of the changes, and the willingness of some taxpayers to test the limits of the system, ensures that implementation of such significant changes will never be trouble-free.

The IRS Oversight Board has previously reported[6] that the tax administration system has two serious systemic weaknesses that require attention: the tax gap and the IRS' archaic information technology (IT) systems. These weaknesses will be discussed below in the context

[6] IRS Oversight Board, *Annual Report to Congress 2010,* April 2011.

of the strategic plan goals and strategic foundations contained in the *IRS Strategic Plan 2009-2013*. Because the tax gap is caused by both unintentional and intentional non-compliance, this report discusses the IRS' efforts to reduce the tax gap in the context of its taxpayer service and enforcement goals. It will also discuss the IRS' efforts to improve its IT systems in the context of the goal to invest in its strategic foundations.

The annual tax gap is the difference between the amount of tax that taxpayers legally owe the government and the amount that is actually paid voluntarily and on time. It serves as an overall measure of taxpayer compliance with our nation's tax laws. In January 2012, the IRS released its most recent estimate of the tax gap, based on tax year 2006 returns.[7] The IRS reported that it estimated the net tax gap for 2006 at $385 billion, which is $95 billion higher than the $290 billion net tax gap previously estimated for 2001. The estimated voluntary compliance rate (VCR) for 2006 is 83.1 percent, which is within the range of error of the previous estimate of 83.7 percent for 2001. The estimated net compliance rate (NCR) for 2006, which takes into account subsequent IRS enforcement activity, is 85.5%, which is within the range of error of the previous estimate of 86.3% for 2001. The 85.5% NCR means that approximately 14.5% of the estimated total tax liability, or $385 billion, is not paid. [8]

To evaluate the IRS' progress in reducing the tax gap, the Oversight Board has approved a long-term goal to achieve a VCR of 86.0 percent by 2012. As noted above, in 2006 the VCR stood at 83.1 percent, almost three percentage points below the 2012 goal.

Although the VCR is the single most important measure to evaluate the effectiveness of a tax administration system, there are some difficulties in using the VCR without considering other supplementary measures. First, the time lag in obtaining updated estimates based on IRS National Research Program (NRP) studies makes it difficult to obtain timely estimates of the tax gap. The IRS released its estimate of the tax gap based on tax year 2006 returns in January 2012. The VCR based on tax year 2012 returns will likely not be known until 2016 at the earliest, because of the process used to estimate the VCR.

One approach to mitigate this problem is to develop surrogate measures for the VCR that may be less comprehensive but can be developed in a more timely manner. The Board believes that tax administration would be well-served with frequent updates of tax gap estimates and encourages the IRS to plan for regular updates of the tax gap based on ongoing NRP studies. The Board also notes that the NRP studies yield valuable results that go beyond simply updating of the tax gap estimates, such as improving the IRS' case selection processes or highlighting broad areas of non-compliance.

---

[7]IRS, *Information Release-2012,* January 2012.
[8]*The NCR is defined as one minus the ratio of the net tax gap to total liabilities.*

The second difficulty in using VCR exclusively is that it is difficult to link changes in voluntary compliance levels to specific IRS service and enforcement programs. Thus, although the IRS has a number of efforts underway that promise to have a positive influence on non-compliance, it is impossible for the Oversight Board, the IRS, or any other member of the tax administration community to attribute changes in the VCR to specific IRS programs with any degree of certainty. This difficulty can be mitigated by developing program-specific measures to evaluate the effect of particular initiatives on taxpayer compliance. These measures can produce reliable estimates of the return on investment (ROI) of specific programs.

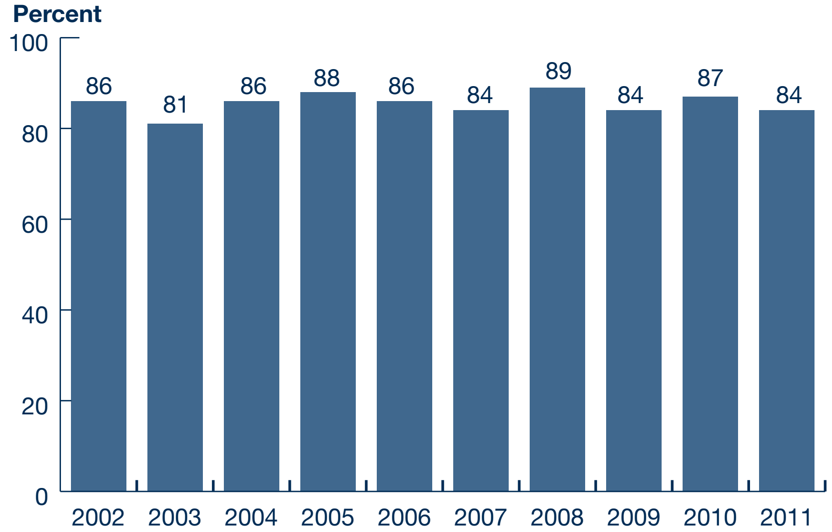
To evaluate progress in modernizing its IT systems, the Board has approved milestone charts for two critical efforts within the Business Systems Modernization (BSM) program: the Customer Account Data Engine 2 (CADE 2) and Modernized e-File (MeF) programs. Both long term schedules are presented in Section IV. The Board is pleased to report that IRS has made excellent progress since the Board's last report in achieving major milestones in both the CADE 2 and MeF programs.

In reporting on the importance of the strategic plan, the Board must also note that the current plan requires updating, as it ends in 2013 and all the long-term measures in the plan, except one, reflect a target year of 2012 for achievement. The Board and IRS are actively discussing updates to the current plan, which will establish future goals

Strategic Goal 1:
Improve Service to Make Voluntary Compliance Easier

The US tax administration system is built on a foundation of taxpayer self-assessment and voluntary compliance. Results of the Board's *2011 Taxpayer Attitude Survey*, shown in Figure 11, demonstrate that the vast majority of taxpayers believe it is "not at all acceptable to cheat." Nonetheless, the complexity of the tax code can prevent taxpayers from understanding their tax obligations. As discussed in Section II, the accuracy of IRS service has been quite high, but its accessibility has not, especially for toll-free telephone service, a major service channel that taxpayers use to contact the IRS. The level of service (LOS) on IRS toll-free telephone lines from FY2008 through FY2011 has been below the 80 percent level the Board believes is adequate.

Figure 11: Percent of Public Who Say it is Not Acceptable to Cheat on Your Income Taxes



Source: IRS Oversight Board Taxpayer Attitude Survey

To achieve its goal of making voluntary compliance easier, taxpayers must receive high quality service via multiple, convenient, and easy-to-use service channels. Because taxpayers choose which channel they use, it behooves the IRS to make the channels it prefers taxpayers to use the most convenient. Taxpayers with complex problems or issues may require in-person assistance; a service channel that is typically the most expensive to provide, and should be the exception rather than the rule.

Similar logic can be applied to serving small business and corporate taxpayers. Many of these taxpayers use professional preparers, and larger taxpayers are more likely to have their own tax departments. Still, prevention of non-compliance by making voluntary compliance easier remains the highest priority goal.

The Oversight Board sees three challenges to effective taxpayer service that must be addressed: persistently low budgets for telephone service that result in low LOS on IRS toll-free telephone channels; the need for a concerted investment in technology to make alternate channels to telephone service more attractive; and a rising tide of refund fraud fueled by identity theft.

Low toll-free telephone budgets

After four years of inadequate budgets for IRS toll-free telephone service, the Board questions whether telephone service will be funded adequately in the near future, especially considering the heavy pressure that all federal agencies face to reduce costs. As a consequence, the IRS must take positive steps to lower demand on toll-free telephones by shifting taxpayers to alternative channels that are more cost-effective, such as self-service channels on the Internet. The Board believes the current situation, which limits access to toll-free telephone service by lowering budgets, is particularly harmful to taxpayers as the tax system grows more complex with each passing year. When faced with growing complexity, taxpayers who want to do the right thing but are unable to obtain the right answers may be more likely to unknowingly file incorrect returns.

The Board believes the IRS needs to establish a formal plan, with appropriate goals, to reduce toll-free telephone volume by shifting taxpayers seeking service to alternative channels. The Board cautions, however, that appropriate resources must be associated with such a plan if it is to be successful.

Investment in technology

Technology offers the potential to offer more convenient and attractive service channels to taxpayers. The IRS web site can be a large part of developing alternative taxpayer channels: YouTube videos, Twitter, mobile phone applications, and social networking all offer opportunities for more convenient interactions with taxpayers. In FY2011, the IRS offered its first mobile phone application, IRS2GO, which allowed taxpayers to check their refund status, access IRS videos, and more.

A recent GAO report[9] compared online services offered by the IRS to online services offered by New York and California. Table 3 replicates a table found in the report.

Table 3: Comparison of IRS, NY, and CA Interactive Online Services

Online service	IRS	NY	CA
View tax account balance and recent payments		√	√
Make extension payments		√	√
Respond to department notices		√	√[a]
Order tax return or tax account transcript	√		
Estimate personal tax account payment		√	√
Determine eligibility for tax credits [b]	√	√	√
Pay taxes online	√	√	√
Check the status of a refund online	√	√	√
Change taxpayer address		√	√

Source: GAO
Notes: This is not a complete list of services available on IRS, New York, and California tax websites. [a]California provides taxpayers with the ability to respond to a limited set of notices. [b]Taxpayers can determine their eligibility for a limited number of tax credits using these web features.

[9] GAO, GAO-12-176, *2011 Tax Filing,* December 2011.

Both California and New York offer taxpayers the ability to view their tax account balance and recent payments, yet the IRS does not. However, the IRS Restructuring and Reform Act of 1998 (RRA 98) requires the IRS to provide all taxpayers filing electronic returns to be able to review their accounts electronically, subject to the condition that all necessary safeguards to ensure the privacy of such account information are in place. This and other capabilities listed in Table 3 provide examples of new services the IRS could offer to taxpayers. The IRS has considered developing such a capability, but to date security considerations have prevented its implementation.

The same GAO report states that the IRS has begun spending a planned $320 million on its web site over a 10-year period. However, GAO cautions that the IRS does not have concrete plans that define what additional online services the new website will ultimately provide or how much such services will cost, and recommends that the IRS develop such a plan. A successful investment requires a thoughtful strategic plan; an understanding of the benefits to be derived; an estimate of the costs to be incurred; and measures that will be used to evaluate progress.

Another technology that the IRS has begun to develop is a Virtual Service Delivery terminal that would allow taxpayers in remote locations to confer with IRS assistors using video technology. This technology, coupled with existing volunteer tax preparation programs such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE), represents another strategic opportunity to leverage technology and volunteer resources on a combined basis to improve its taxpayer service, especially to under-served remote areas.

Refund fraud fueled by identity theft

A serious problem in tax administration that has been consuming an increasing number of IRS staff is attempted refund fraud that is fueled by identity theft. The Federal Trade Commission (FTC) stated in March 2012 that of the more than 1.8 million complaints it received in 2011, there were 279,156 related to identity theft. Of those complaints, close to 25 percent were related to tax or wage-related fraud.[10]

Identity theft can have impacts on victims that do not involve tax administration, but tax administration is affected when the perpetrators file a phony tax return using the stolen identity information and claim a fraudulent refund based on fabricated W-2s. TIGTA has reported on the growing scope of the problem from 2009 to 2011, as shown in Table 4.[11]

These trends also have the effect of increasing the IRS taxpayer service caseload to assist taxpayers who have been victimized by identity theft.

---

[10] *FTC Beat,* March 26, 2012.

[11] TIGTA, TIGTA 2012-40-036, *Interim Results of the FY2012 Filing Season,* March 30, 2012.

Table 4: Fraudulent Returns and Refunds Identified and Stopped in Processing Years from 2009 to 2011

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Fraudulent Refunds Identified (in dollars)	Fraudulent Refunds Stopped (in dollars)
2009	457,369	369,257	$2,988,945,590	$2,517,094,116
2010	971,511	881,303	$7,300,996,194	$6,931,931,314
2011	2,176,657	1,756,242	$16,186,395,218	$14,353,795,007

Source: TIGTA

In 2008, the IRS established the Identity Protection Specialized Unit (IPSU) to serve as a single contact point for handling such cases. The caseload of this unit, as reported by the National Taxpayer Advocate[12], has increased sharply from 2009 to 2011, as has the caseload of the Taxpayer Advocate Service staff; the caseloads are shown in Table 5.

Table 5: Identity Theft Assistance Receipts for IPSU and Taxpayer Advocate Service, 2009 to 2011

Year	2009	2010	2011
IPSU Inventory Receipts	80,637	184,839	226,356
TAS Identity Theft Caseload	14,023	17,291	34,006

Source: National Taxpayer Advocate

In response to the growing number of identity theft victims needing assistance, the IRS has increased staffing at its IPSU from 40 to approximately 440. Notwithstanding this increase, the NTA reports that the IPSU is still struggling to effectively manage identity theft cases.[13]

The growth in the number of victims seeking assistance represents a large resource drain on the IRS service staff. Although the number of victims seeking assistance is not under the control of the IRS, the need to assist victims is compelling, and must receive a high priority. However, such efforts take away IRS resources from other service functions.

Despite the challenges described above, the Board believes the IRS has developed a number of programs that have the potential to improve taxpayer service and make voluntary compliance easier. These programs emphasize prevention of non-compliance and apply to a range of taxpayers, including individuals, small businesses, and

[12] National Taxpayer Advocate*, 2011 Annual Report to Congress: Most Serious Problem #3,* December 2011.
[13]*Ibid.*

large corporations. They include the Paid Preparer Regulation program, Compliance Assurance Process (CAP), the reporting of uncertain tax positions (UTPs), establishment of the Office of Online Services, and the exploration of a Real Time Tax System.

Although there is little quantitative evidence yet to evaluate whether these programs are making voluntary compliance easier, they have the potential to reduce the tax gap in the long term, as discussed below.

Paid Preparer Regulation
Beginning in FY2009, in recognition of the fact that tax preparation is largely an unregulated industry, the IRS conducted a thorough review of the benefits and issues associated with the establishment of standards for the professional tax preparation industry. The IRS announced plans to implement a multi-year initiative to register, test, impose continuing education requirements, establish ethical standards, and enforce these regulations on paid tax preparers.

The program is now in its second year. During FY2011, the IRS moved the program forward significantly by accomplishing the following activities:

- The IRS Return Preparer Office (RPO) registered and issued Preparer Tax Identification Numbers (PTINs) to about 750,000 preparers.
- The IRS released specifications for the competency test that individuals must pass to become a Registered Tax Return Preparer. Preparers who pass the test, a background check, a tax compliance check, and complete 15 hours of continuing professional education annually will have the designation of Registered Tax Return Preparer. Testing began in November 2011.
- The continuing education (CE) program is in the third phase of increased oversight of federal tax return preparers. In September 2011, the IRS selected a vendor to administer application and renewal services for Continuing Education Providers that will serve Registered Tax Return Preparers and Enrolled Agents. The CE requirements began in calendar year 2012.
- The IRS is continuing to review the issues surrounding background checks and fingerprinting.
- In July 2011, the IRS sent letters to approximately 100,000 tax return preparers who prepared returns in 2011 but failed to follow the new requirements. The letters explained the program, informed preparers how to register for a new PTIN, and where to get assistance.
- In an effort to identify “ghost preparers” (preparers who do not sign the returns they prepare), the IRS also sent letters to taxpayers whose returns appeared to have assistance but lacked preparer signatures. The goal of the letters was to protect

taxpayers and ensure that taxpayers know that all paid federal tax return preparers should be registered with the IRS and sign tax returns they prepare.

- The IRS also is working to identify tax return preparers who make repeated errors and schedule educational face-to-face meetings with them.

- The IRS established a Facebook page where it has informal conversations with the tax professional community on issues that affect return preparers, with the goal to improve overall tax administration.

Many tax professionals, and the IRS Oversight Board, continue to see the program to regulate paid tax preparers as an effort to enhance the profession of tax preparation, and praise the IRS for deciding to implement regulations on paid tax preparers. There is a broad belief within the tax administration community that preparer regulation will lead to increased taxpayer compliance.

However, because the program is still its implementation stages, there is no quantitative evidence as yet that increased taxpayer compliance will be achieved. Many preparers believe it will be several years before the real impact of regulation is known. Only then will it be determined whether the IRS has the resources and ability to find and weed out incompetent or fraudulent preparers.

To evaluate the program's effectiveness, the IRS will need to develop measures to evaluate how effectively the program is influencing key outcomes, such as improved quality of tax returns from professional preparers. Analyzing NRP returns done by preparers may be one approach to develop such a measure.

Preparers have also suggested to the Board that the IRS implement a three-pronged public awareness campaign about the new requirements, targeting IRS employees, taxpayers, and the preparer community.

Preparers believe the most difficult of these three campaigns is educating the general public about the new requirements, both to explain how the new credential is different from existing credentials for Enrolled Agents and Certified Public Accountants and to urge taxpayers not to use unregistered, or "ghost" preparers.

Compliance Assurance Process

The Compliance Assurance Process (CAP) program was established by the IRS as a pilot program in 2005 to provide a process to work with large business taxpayers in the pre-filing environment in order to identify and resolve issues prior to the filing of a corporate tax return. During the pilot phase of the program, the IRS invited large business taxpayers to participate.

At the end of FY2011, the CAP program was shifted from pilot status to become a permanent IRS program. The permanent CAP program model consists of three distinct phases: Pre-CAP, CAP, and Compliance Maintenance. After starting with 17 taxpayers in 2005, there were 140 taxpayers in CAP in FY2011. By March of 2012, there were 159, so the program continues to grow.

The CAP program is intended to reduce taxpayer burden through the contemporaneous exchange of information about completed events and transactions that affect tax liability, rather than through the traditional examination process. The CAP program is also intended to foster compliance by helping the IRS achieve its goal of shortening examination cycles and increasing currency for taxpayers while enhancing the accurate, efficient, and timely resolution of increasingly complex corporate tax issues. In addition, the program will assist in increasing audit coverage by providing a more efficient use of audit resources. Finally, the program will allow taxpayers to better manage tax reserves and ensure more precise reporting of earnings on financial statements.

In 2011, the IRS closed 93 examinations of taxpayers in the CAP program, somewhat short of its goal of 102 closures. More recent figures, compiled in March 2012, show some additional progress. The IRS closed 38 examinations of CAP taxpayers, 25 of which were no change examinations.

Because the purpose of CAP is to prevent taxpayer non-compliance, having a large number of examinations closed as no-change is the result that the IRS is generally looking to achieve. The more successful the CAP program becomes, the more voluntary compliance will increase and less tax revenue will be collected by the IRS through its enforcement programs. From the Board's perspective, increasing voluntary compliance and decreasing enforcement revenue is a highly desirable outcome. Thus, it is imperative for the IRS to develop new methods of evaluating the CAP program so that its effectiveness in preventing non-compliance can be measured.

Uncertain Tax Positions (UTP)

The requirement for business taxpayers to complete a Schedule UTP was established in 2010, after an extensive period of review and comment by stakeholders. The disclosure of uncertain tax positions is an important element in the IRS' strategy to improve voluntary compliance through greater transparency. Not only will Schedule UTP allow the IRS to focus on taxpayers where it believes there are important tax issues that require resolution, it will also help the IRS understand which taxpayers do not warrant additional attention.

During 2011, the IRS completed its process for handling Schedule UTP and trained its examiners on the process, including how to use it in conjunction with other tools, such as the Quality Examination Process. As of the end of 2011, approximately 1,900 taxpayers have filed Schedule UTP, disclosing about 4,000 issues. The IRS was generally satisfied with the concise descriptions of each reportable tax position it received, as only 133 failed to satisfy the IRS' requirements.

The IRS is satisfied with the program in its first year of implementation. However, the challenge for the IRS is to develop a strategy for evaluating the effectiveness of the reporting of uncertain tax positions.

Office of Online Services

In 2011, the IRS established the Office of Online Services to provide a central office to develop a multi-channel approach to delivering taxpayer service and increase the share of service transactions with taxpayers that are handled through the Internet. The priorities of the office are to relaunch the *IRS.gov* web site on a new platform with revised architecture and new content management technology, develop new self-service applications, and continuously improve existing applications.

As previously discussed, investments in technology are needed if the IRS is to shift more taxpayer service to modern, cost-effective channels. Establishing a central office to focus these efforts is a step in the right direction. The best measure of success for this office will be outcome-based: Are taxpayers choosing to use the new and expanded services provided?

Real Time Tax System

In 2011, the IRS initiated public discussion, through strategically-delivered speeches and a series of public meetings, about the possibility of making major revisions to the processing of tax returns in the future. The change would move away from the current system of "looking back" at individual tax returns that had been filed by taxpayers to determine if income declared on tax returns matched third-party returns such as Forms W-2 and 1099. Instead, the IRS would perform such document matching in "real time" when those returns are initially processed.

The IRS held two public meetings to explore the real time approach with stakeholders, including tax preparers, taxpayers, state governments, and issuers of information returns. It was generally seen by most participants as offering a number of service and enforcement benefits to both the IRS and taxpayers. Taxpayers could have confidence that their returns were checked by the IRS at the time of initial processing, and any discrepancies could be addressed immediately, while records are handy and memories fresh. Should a taxpayer owe additional tax, it allows the taxpayer to settle before interest accumulates. Another major advantage of real time document matching is that a significant amount of attempted refund fraud is based on the perpetrator claiming fraudulent Form W-2s, and real time document matching would effectively eliminate such refund fraud.

Nonetheless, there is widespread belief that implementing such a system would take a lot of work throughout the tax administration community to ensure that the required information returns would be available in a timely matter. Many stakeholders recommended a phased-in approach that would allow the IRS to proceed slowly with implementation.

The IRS is currently proceeding with the evaluation process, and has not announced a final decision on implementation. Should the IRS decide to proceed with implementation, the IRS has suggested that development time for such a massive change would take many years to phase in and require extensive coordination throughout the tax administration community. Such an initiative would span multiple strategic plans, and the Board believes that such a major change needs to be included in the strategic planning process to be successful.

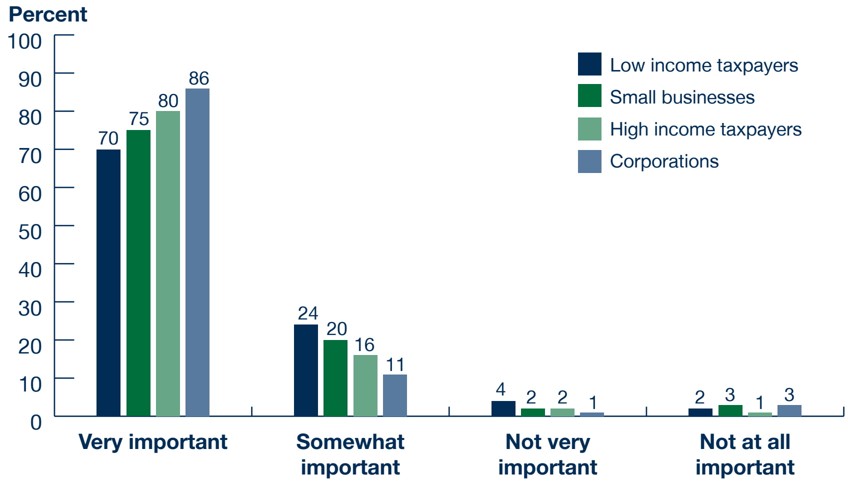
Strategic Goal 2:
Enforce the Tax Law to Ensure Everyone Meets Their Obligation to Pay Taxes

The IRS Oversight Board can state categorically that taxpayers overwhelmingly support enforcement of the tax laws. Figure 12 shows the results of the Board's *2011 Taxpayer Attitude Survey* when the public was asked about the importance of IRS enforcement.

Vigorous enforcement of the tax laws by the IRS gives taxpayers confidence in the tax administration system. Moreover, in times of significant budget deficits, it makes good business sense for the IRS to take what steps it can to ensure that all taxpayers, regardless of the tax segment, pay what they legally owe. As illustrated in Figure 12, the public believes that no segment of taxpayers should be exempt from vigorous enforcement of the tax laws.

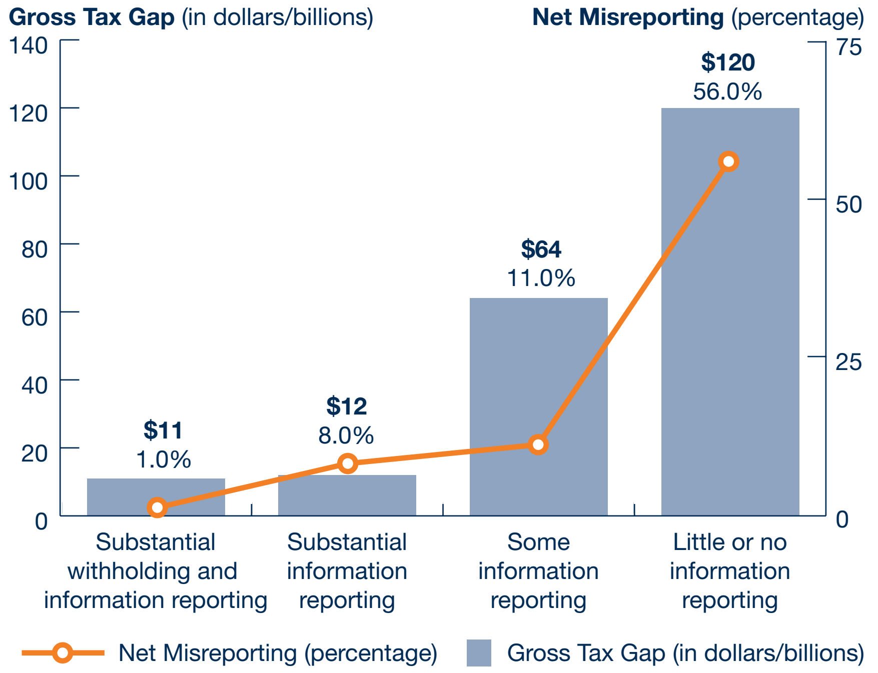
The IRS' strategy for improving enforcement of the tax law is based on improving its access to information. An accepted principle in tax administration is that where there is information, there is compliance. This principle is well-illustrated by Figure 13, which shows the impact of information reporting on underreporting of income.

Figure 12: Importance to the Public That the IRS Ensures Various Taxpayers are Reporting and Paying Their Taxes Honestly



Source: IRS Oversight Board 2011 Taxpayer Attitude Survey

Figure 13: Individual Income Tax Underreporting Tax Gap and the Impact of Withholding and Information Reporting (Tax Year 2006 Estimates)



Source: IRS

In situations where there is little or no information reporting, the misreporting of income is approximately 56 percent, compared to 11 percent misreporting where some information reporting occurs.

Thus, many of the IRS' more recent enforcement programs attempt to obtain additional data, either from third party reporting or through taxpayer self-disclosure. Although there is little quantitative evidence that IRS enforcement efforts have improved the voluntary compliance rate and hence reduced the tax gap, the Board believes that the IRS has a number of enforcement-related programs that have the potential to reduce the tax gap in the future. These programs involve obtaining and analyzing information from various taxpayer segments and include: additional information reporting of stock basis and merchant card payments, offshore voluntary disclosure, and the Foreign Account Tax Compliance Act (FATCA) program; described in the following pages.

Additional Information Reporting of Stock Basis and Merchant Card Payments

Figure 13 clearly shows the effect of information reporting on the misreporting of income. Two sources of new information reporting began in 2012: securities brokers report stock basis to both the IRS and taxpayers for transactions made in 2011; and credit card processors report US merchants' annual payment card receipts and third party network transactions to the IRS and merchants.

It is too soon to understand the effect of this new information reporting, but the new information reports that the IRS is receiving in 2012 represent a significant increase in information at the IRS' disposal. Because the stock basis reporting only applies to purchases beginning in 2011, the effect of these information reports will start slowly but increase over time as more purchases are covered by the requirement.

With respect to merchant card reporting, was an IRS decision not to require reconciliation of gross receipts and merchant card transactions on income tax forms. This requirement was dropped after dialog between the IRS and business stakeholders revealed concerns over the ability to accurately report the data as originally proposed.

GAO noted that the IRS industry outreach was thorough but the IRS missed its target dates for issuing regulations because of the complexity of the industries involved. GAO also noted that although the IRS developed preliminary performance measures to assess the implementation and outcomes, including effects on revenue and compliance, a plan to document the performance measures was not finalized.

Both programs will be heavily monitored by stakeholders and oversight organizations. It is essential that the IRS develop a set of outcome measures that allow the IRS, the Oversight Board, and others to understand the effectiveness of the new information reports in increasing taxpayer compliance. A full understanding of both the benefits and costs is essential to making future informed decisions about the value of merchant payment card and stock basis reporting.

Offshore Voluntary Disclosure

A follow-up initiative to the Offshore Voluntary Disclosure Program (OVDP), known as the Offshore Voluntary Disclosure Initiative (OVDI) ended on September 9, 2011. According to the IRS[14], the OVDP resulted in approximately 18,000 self-disclosures by taxpayers and the OVDI resulted in an additional 12,000 voluntary disclosures.

From a tax revenue standpoint, the IRS also revealed that as of September 2011, it collected $2.2 billion as a result of the 2009 OVDP program, and an additional $500 million as a result of the 2011 OVDI program, a figure that would likely increase.

Because of the success of these two programs, the IRS in January 2012 reopened the OVDP to help taxpayers hiding offshore accounts get current with their taxes. The IRS has not specified an end date, but expressed the belief that taxpayers with reported assets overseas want to get right with their government and get back into the tax system.
The Board considers both programs to be very successful, not only

[14] IRS, IR-2011-94, *IRS Shows Continued Progress on International Tax Evasion,* September 15, 2011.

because of the tax revenue collected to date, but because those taxpayers who have self-disclosed can be expected to be voluntarily compliant for years to come. The Board believes it would be valuable for the IRS to perform a post-mortem analysis of the long-lasting benefits the IRS expects from the program and estimate a return on investment. Such an analysis could lead to a better understanding of the investment value of IRS enforcement programs.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act (FATCA) was enacted as P.L. 111-147 in March 2010. It requires foreign financial institutions (FFIs) to comply with disclosure requirements for U.S. accounts. The objective of these new reporting requirements is to detect and deter tax evasion. These new information reporting requirements are intended to provide an additional tool for the IRS to detect non-compliance, in this case focused on non-compliance through the use of offshore assets.

Activity in 2011 was focused primarily in developing guidance to implement the FATCA withholding requirements. Several guidance documents were issued during the last year, including proposed regulations in February 2012.[15] Along with the proposed regulations, the US issued a joint statement with five European partners indicating joint support to the underlying goals of FATCA and promoting an intergovernmental approach to FATCA implementation. However, intense criticism has been received from US citizens living abroad, who claim that the regulations impose heavy compliance burdens on them.[16]

FATCA implementation carries with it much promise but also burden. The challenge facing the IRS will be to use meaningful measures to evaluate its use of the additional information, and assess whether the benefits received from the program outweigh the costs.

One Challenging Program: Correspondence Examinations

The previous paragraphs have described three promising programs that have the potential to reduce the tax gap. The Board has also identified one existing program within the IRS that presents some challenges: correspondence examinations.

From 2001 to 2011, the number of examinations of individuals conducted by the IRS has grown significantly. Most of this growth, as shown in Figure 14, has been achieved by increasing the number of examinations conducted by mail, also known as correspondence exams. Generally correspondence exams only cover a single issue, where field examinations can include a wide scope of issues.

The increased use of correspondence exams allows the IRS to examine more taxpayers with respect to specific issues in a resource-constrained

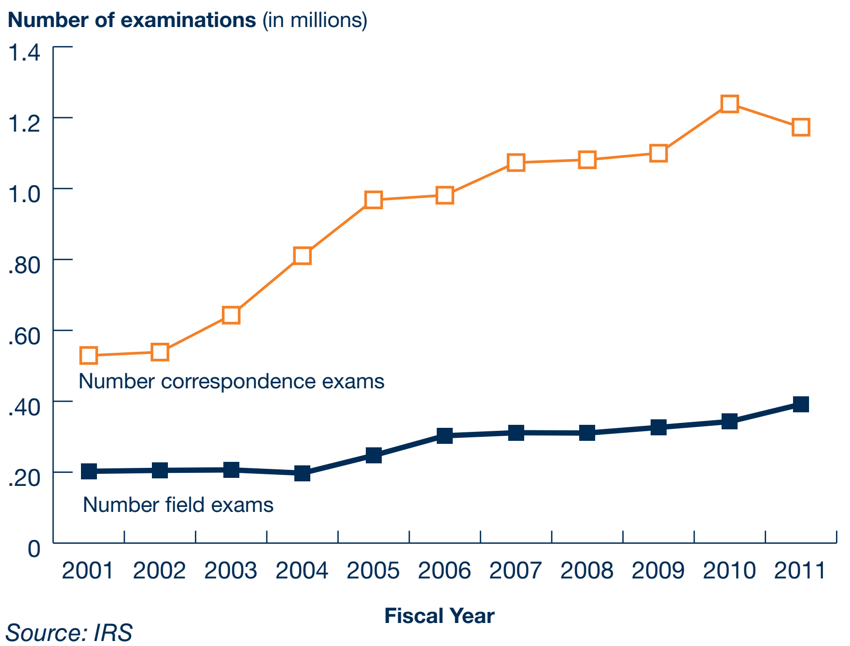
[15] IRS, Notice 2011-34, April 2011; *Notice 2011-53,* July 2011, and *REG-121647-10,* February 2012.

[16] New York Times, *For Americans Abroad, Taxes Just Got More Complicated,* April 16, 2012.

environment. Correspondence exams are less expensive for the IRS to conduct than field audits and also relieve the taxpayer from the burden of visiting an IRS office.

While this trend has allowed the IRS to increase the number of audits it conducts, taxpayers, their representatives, and the National Taxpayer Advocate[17] have raised concerns about the process. The Board, at its 2012 public meeting, devoted a panel to discuss how correspondence audits might be made more effective and less burdensome to taxpayers. A variety of correspondence examinations will continue to be conducted by mail, including Earned Income Tax Credit exams, Automated Underreporter cases, and other single issue exams. The process used by the IRS to conduct correspondence examinations relies heavily on traditional mail delivery.

Figure 14: Growth of Field and Correspondence Examinations, 2001 to 2011



Source: IRS

Resource limitations will likely dictate that correspondence exams will remain a mainstay of the IRS examination program. To address the most common complaint voiced by taxpayers, the IRS has redesigned its mail handling processes to speed up the delivery of mail to the IRS employee conducting the audit.

However, with more than one million correspondence examinations conducted annually by the IRS and the large investment the IRS has made in electronic tax administration (ETA), it would seem appropriate for the IRS to make greater use of technology in conducting correspondence exams, so that a sizable portion of them might not rely on so-called snail mail as the enabling technology. A reasonable start

[17] National Taxpayer Advocate Blog, *Are IRS Correspondence Audits Really Less Burdensome for Taxpayers?,* February 6, 2012.

might take advantage of the preparer regulation program and expand e-services to registered tax return preparers so that information can be transmitted to the IRS electronically during the correspondence examination process.

Strategic Foundations: Modernizing the IRS' Information Technology

The IRS Oversight Board has long emphasized the importance of the IRS Business Systems Modernization (BSM) program because it believes a modern information technology (IT) system is the foundation for major increases in IRS efficiency and reduced taxpayer burden achieved through ETA. The Board's vision for ETA is a tax administration system that provides secure, convenient, timely, and accurate services to taxpayers, and to the tax professionals and IRS employees who serve them.

The Oversight Board has approved two long-term goals that it uses to measure the IRS' progress in modernizing itself: 1) the rate at which taxpayers electronically file their tax returns, and 2) the successful and timely delivery of the CADE 2 and Form 1040 modernized e-file (MeF) systems.

Electronic Filing

Although there is more to ETA than the electronic filing of tax returns, e-filing is a foundational part of the tax-related technology applications embedded in the concept of ETA and is an easily understood and quantifiable measure to evaluate progress. With the Board's approval, in early 2007 the IRS recommitted itself to the 80 percent e-file goal first promulgated in the IRS Restructuring and Reform Act of 1998 (RRA 98). That reframed goal requires an overall 80 percent e-file participation rate for all major individual, business, and exempt organization tax returns by 2012.

Although electronic filing of individual tax returns has shown a steady growth for over ten years, electronic filing of business and tax exempt tax returns has grown at a slower pace, as illustrated in Figure 5. As reported earlier by the Oversight Board, reducing the number of business employment tax returns filed on paper, especially Form 941 returns, is a particularly significant challenge to the IRS to meet its strategic goal of having 80 percent of major tax returns filed electronically by 2012.[18]

In 2011, electronic filing of individual returns experienced a year of outstanding growth, increasing from 98.3 million to over 111 million, the strongest annual increase for individual returns since 2004. The growth of all major tax returns filed electronically also showed improvement, although not to the extent achieved by individual returns. Approximately 67 percent of all major tax returns were filed electronically as of the end of 2011.

---

[18] IRS Oversight Board, *IRS Oversight Board Electronic Filing 2011 Annual Report to Congress,* December 2011.

Although the IRS has made solid progress in promoting the attractiveness and convenience of electronic filing, the Board is doubtful the IRS can achieve the goal of having 80 percent of all major tax returns filed electronically by 2012. Nevertheless, even if attaining the 80 percent e-file rate for all major tax returns by 2012 proves to be impossible, the Board is confident that tax administration will eventually cross that threshold.

CADE 2 and MeF

Milestone charts for both the CADE 2 and MeF programs are presented in Section IV. The Board is pleased that both programs met their deliverables through January 2012 and were operating during the 2012 filing season. The 2012 filing season is the first time that the IRS has been able to perform daily account processing, which is part of the CADE 2 program. The capability to process tax accounts on a daily basis can deliver important benefits to taxpayers, such as faster refunds, but is also a foundational step to further improvement.

The MeF program, which accepts all Form 1040 returns and associated schedules and forms for the first time, is now processing the vast majority of electronic tax returns instead of the legacy e-file system. Some issues were encountered early in the 2012 filing season, but these problems were resolved.

One major risk the BSM program has experienced in the past is inadequate funding. The Oversight Board has consistently recommended increased funding for the BSM program, and in FY2012, despite significant cuts in the IRS' overall budget, Congress increased BSM funding to the level consistent with the Board's recommendation. The Board recognizes the significance of this action, and appreciates the funding decisions that are consistent with the Board's recommendation. The increased funding was an important factor in the CADE 2 and MeF programs meeting their critical milestones.

Strategic Foundations: Developing a Highly Effective Workforce

Although the IRS hired a number of new employees over the past few years, the hiring freeze resulting from the full-year continuing resolution in FY2011 resulted in fewer employees on board at the end of the fiscal year, a three percent decline over FY2010. The IRS has been closely monitoring attrition rates for a number of employee categories, finding that the rates for early tenure employees (those with less than three years federal service) declined to 6.5 percent from 7.8 percent in FY2010. However, the overall attrition rate agency-wide rose to 5.73 percent, from 4.84 percent in FY2010, as eligible employees began to retire as the economy slowly improved.

The Oversight Board has been a strong proponent of slow, steady increases in the number of IRS employees. Cycles of "feast or famine" hiring have an adverse impact on any organization, but especially on the IRS. During periods of high hiring, a large influx of new employees who require training lowers the productivity of seasoned employees who become mentors to the new hires. Conversely, during periods of reduced hiring, the resulting talent gap makes it harder for the IRS to meet its mission and forces it to devote significant resources to realigning its business plan to accommodate reduced staffing. The shortage worsens as senior experienced personnel retire. Growing tax complexity and systems technology only contribute to the problems as employees require additional training and mentoring to become as fully functional as the departing employees.

However, despite reduced hiring and the pay freeze in effect for FY2011, and other challenges such as late tax law changes, short-term continuing resolutions, possible government shut-downs, and a decreased budget, the 2011 IRS Employee Survey results showed the employee engagement index—which measures the degree of employees' motivation, commitment and involvement in the mission of the organization—and the job satisfaction index both remained stable compared with last year, with no erosion of the gains achieved over the past few years. IRS employees told Board members at the 2011 Nationwide Tax Forums that while they were thankful for having jobs in a down economy, their biggest concerns during periods of possible future budget reductions were reduced service to taxpayers and a decline in employee engagement and retention.

The employee engagement results are a testament to IRS' efforts to stabilize its workforce in the current environment. The IRS has been working toward becoming the best place to work in the federal government. This past November, the Partnership for Public Service released the results of the 2011 *Best Places to Work in Federal Government* survey. The IRS ranking improved again, moving over a two-year period from a ranking of 127 to a ranking of 65 out of the 240 participating agencies. The IRS is now ranked third out of 15 large agencies (those with over 20,000 employees) in the employee engagement index developed from the results of the Office of Personnel Management (OPM) Employee Viewpoint survey. The survey results indicate that the IRS is meeting its strategic goal through 2011 and IRS employees remain engaged, motivated and committed, regardless of the external environment, an indicator of their professionalism and commitment to service.

Employee job satisfaction and engagement are two necessary ingredients in developing high-performing organizations and attracting top talent. The *Best Places to Work* rankings are an important indicator that employee satisfaction is a top priority for IRS managers and leaders. The Oversight Board believes, and IRS data confirm, a link between engagement and productivity. IRS' Large Business & International (LB&I) division did an analysis of employee survey data and found correlation between the top 10 percent of engaged employees and the top 10 percent of productive employees. The findings indicated a significant benefit associated with high employee engagement, including a higher degree of efficiency and productivity and lower attrition rates.

IRS employees have told the Board that non-monetary benefits such as workplace flexibilities provide a powerful tool to boost employee engagement and retention at minimal costs. Employees like the family-friendly aspects of telework and alternative work schedules, and appreciate the ability to work from home periodically. Employees also value the availability of better, more flexible training and experienced IRS staff who serve as mentors and on-the-job instructors.

As the IRS develops its next strategic plan, it needs to set human capital goals for the next five years and beyond. Elizabeth Tucker, IRS Deputy Commissioner for Operations Support, has said that the reason our tax administration system continues to work is because of the dedication of the men and women of the IRS. She said the IRS leadership continues to look to the future and prepare to ensure the right people, the right technology, and the right systems are in place to meet the challenges ahead.

A key challenge for the future IRS will be cost efficiency. The IRS could turn this challenge into an opportunity to work with others in the tax administration community to provide more and better services to taxpayers through cooperation and ease of access to tax information. Closer cooperation with the tax professional community could open up expanded delivery channels, such as e-mail and social networking sites, to deliver new services to taxpayers when and how they want them. Though a lean budget can be a detriment to taxpayer service, it could also provide opportunities for innovation and reworking of standard operating procedures.

Risks in Tax Administration

As part of its statutory responsibility to oversee the IRS, the Board maintains a strong interest in the discipline of Enterprise Risk Management (ERM), which is widely recognized by private and public sector organizations as a necessary discipline for coping with the vicissitudes of an increasingly uncertain world. The scope of risks that organizations must deal with include man-made risks such as acts of terror; natural risks such as severe weather and earthquakes; health risks such as pandemics; changes in economic conditions; and information risks such as cyber crimes and identity theft. Therefore, the Board has urged the IRS, and other members of the tax administration community to continually assess the environment for all potential threats and take steps to mitigate risk to the fullest extent possible.

The Board notes that TIGTA, in identifying the top management and performance challenges facing the IRS for FY2012, chose security for taxpayer data and employees as its top ranked challenge. This action was taken in light of both external threats to data and employees, as well as internal computer security issues.

The Board views ERM in the broadest possible terms: what are the systemic risks that might adversely impact the performance of the tax administration system? The tax administration system makes a critical contribution to the country's economic well-being, and the Board believes there is often an under-appreciation of the importance of that contribution. Any breakdown of the tax administration system, for whatever reason, could easily have adverse national repercussions. Other potential risks that could adversely impact tax administration in the next several years include decreasing resources, inadequate resources for implementing tax provisions of the Patient Protection and Affordable Care Act, and tax code complexity.

Declining IRS Resources

In the past year, a new challenge to effective tax administration has emerged: reductions in IRS budgets for service and enforcement that reduce IRS resources and make it more difficult for the IRS to serve taxpayers and enforce the tax laws. The performance results achieved by the IRS in FY2011, reported in Section II and Appendix 2 of this report, will likely decrease in FY2012 as a result of reduced IRS budgets. As the Board said in a letter to House and Senate appropriators in October 2011:

> *Based on our private sector experience, Board members offer the following analogy. It does not make good business sense for a company experiencing difficult economic times to cut back its accounts receivable department. Such a decision would be characterized as penny wise and pound foolish. Additionally, reducing the IRS' capacity to deter tax cheating puts compliant business taxpayers at a competitive disadvantage to businesses that cheat, which is not behavior that should be encouraged, however unintended.*[19]

All federal agencies are under increasing pressure to do more with fewer resources, and the IRS is no exception. For many years the Board has taken a strong interest in promoting the implementation of business improvement projects throughout the IRS, and the IRS has successfully implemented a number of such projects. As discussed previously, the Board sees several opportunities for the IRS to improve its service and enforcement performance, including preparer regulation, CAP, analysis of new information reporting, and offshore voluntary disclosure programs.

However, the Board believes there are additional business process improvement opportunities to make the IRS both more efficient and ultimately reduce taxpayer burden. With correspondence examinations being the mainstay of the IRS examination program, new approaches to making correspondence examinations more efficient and less burdensome to taxpayers could have a large impact. Also, the combination of additional data and the use of a new relational database offer an opportunity for using data analytics to enhance IRS case selection and treatment streams.

---

[19] IRS Oversight Board, *Letter to Senate Appropriations Committee,* October 12, 2011.

Implementing Tax Provisions of the Patient Protection and Affordable Care Act

With the enactment of the Patient Protection and Affordable Care Act, P.L. 111-148 (also known as the ACA), on March 23, 2010, the IRS has been tasked with a wide range of new responsibilities, including:

- administering new tax credits for individuals and businesses;
- collecting a new excise tax on tanning services and a new fee on certain businesses engaged in the manufacturing and importing of prescription drugs;
- implementing expanded exemption requirements on charitable hospitals; and
- gathering, processing, and sharing additional information reports.

The Board's primary concern is that the IRS receives the resources required to implement the new provisions effectively and efficiently. The Board believes that implementing the requirements of the ACA represents a significant expansion of the IRS' responsibilities. The IRS has demonstrated in the last decade that it can take on new responsibilities and perform them well, but the risks associated with implementing the requirements of the ACA increase if the IRS does not receive the resources it needs to administer them.

Simplifying an Expanding Tax Code

Appendix 1 illustrates the recent use of the tax code to deliver economic benefits to taxpayers. These include efforts to deliver economic relief, to stimulate the automotive and housing markets, to provide health insurance assistance to unemployed taxpayers, and to broadly stimulate the economy.

The Board has used the data in Appendix 1 to illustrate some of the specific issues the IRS has faced during the recent filing season.
The Board's enabling legislation dictates that it has no role in establishing tax policy. However, the Board also notes that three major tax reform reports from Presidentially-appointed study groups have been delivered since 2005[20] and each has called for tax code simplification.

Tax code simplification would reduce taxpayer burden, decrease demand for taxpayer service, reduce the likelihood of taxpayer non-compliance because of failure to understand tax obligations, and improve the IRS' ability to identify willful non-compliance. Any advantages of retaining complexity would seem minimal in comparison to the benefits of tax simplification.

---

[20] *Report of the President's Advisory Panel on Federal Tax Reform,* November 2005*; Report of the President's Economic Recovery Advisory Board: Simplification, Compliance, and Corporate Taxation,* August 27, 2010*;* and *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform,* December 2010.

IV. Measuring Progress Toward Strategic Goals

The Oversight Board has been tracking IRS progress on its long term measures and associated goals ("target values") and sharing that information with stakeholders via a series of graphs on the Board's website (*www.irsoversightboard.treas.gov)*. These graphs are presented on the following pages. With most of the target values for the long term measures centered on the year 2012, and with actual results through 2011 now available, it is possible to make a fairly reasonable assessment as to how much progress the IRS has made toward achieving its strategic goals.

Overall, the Board believes good progress has been achieved toward the strategic goals articulated by the IRS. In most instances, this progress toward the specific target value is largely reflective of IRS' solid performance. However, for a few measures, the progress involved is a result of both the efforts of the IRS and the broader professional tax community, including return preparers and tax software providers.

In terms of customer satisfaction, IRS results through 2011 currently exceed the target values set for the three applicable measures, i.e., for the American Customer Satisfaction Index (ACSI) Score for individual tax filers, for the Service Interaction Score for taxpayers receiving assistance over the telephone or at IRS offices, and for the Enforcement Interaction Score for taxpayers contacted as part of IRS compliance efforts.

In terms of employee engagement, the IRS result through 2011 also exceeds the applicable target value. In particular, the index developed from employee survey results, and which provides a composite measure of engagement, indicates that IRS employees are well within the top quartile when it comes to the large federal agencies.

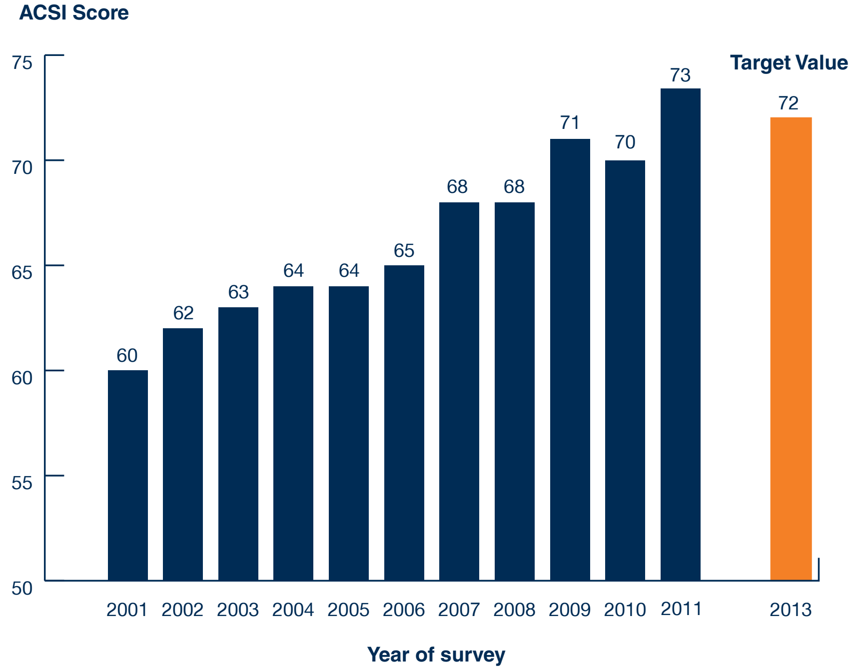
In terms of its IT modernization efforts, the IRS also made steady progress during 2011 on two of its other long term measures. As a result, the IRS delivered in early 2012, key project milestones for its CADE 2 program and MeF programs. This includes the CADE 2 success in moving the IRS to daily, instead of weekly, updating of individual taxpayer accounts, and the success in deploying a Form 1040 MeF system capable of handling all individual income tax returns and their associated forms and schedules.

However, challenges remain for the IRS to continue its current successful performance into 2012, and also to achieve a few of the remaining long term measure target values. The IRS is not likely to meet its long term e-file goal of having 80 percent of all the major individual, business and tax exempt returns filed electronically by 2012, which stands at just 67 percent as of 2011. However, as the Board noted in its *Electronic Filing 2011 Annual Report to Congress*, the IRS had an exceptionally good year for electronic filing in 2011, and experienced the strongest annual growth rate since 2004. Moreover, the Board expects the e-file rate for individual tax returns to surpass the 80 percent goal in 2012, meeting a challenge originally laid out in the IRS Restructuring and Reform Act of 1998; and to be followed by achievement of the 80 percent e-file goal for all major tax returns a few short years thereafter.

There also remains a challenge for the IRS and the broader tax community to achieve the long term goal of an 86 percent voluntary compliance rate (VCR). This challenge is also multifaceted. It includes the need to move from the most recent estimate of the VCR of 83.1 percent to the long term target value of 86 percent. However, it also includes the need to devise other surrogate measures of voluntary compliance which can be compiled on a more timely basis.

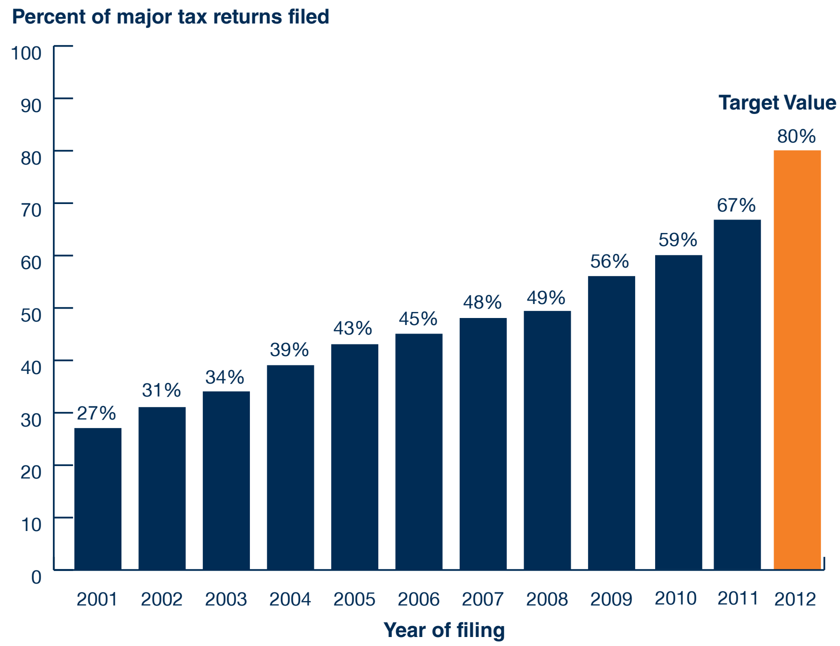
American Customer Satisfaction Index Score for Individual Tax Filers

The American Customer Satisfaction Index (ACSI) is a national indicator of customer satisfaction with the quality of products and services available to household consumers in the United States. Each December, the ACSI issues a report on satisfaction of recipients of services from the federal government. Agency participation is voluntary, linking customer expectations and perceptions of quality and value to satisfaction. In 1999, the federal government selected the ACSI to be a standard metric for measuring citizen satisfaction. The ACSI customer satisfaction score for individual income tax filers is measured on a 0 - 100 scale and assesses taxpayer satisfaction with the return filing processes. The target value is for the IRS ACSI score to reach 72 by the year 2013.



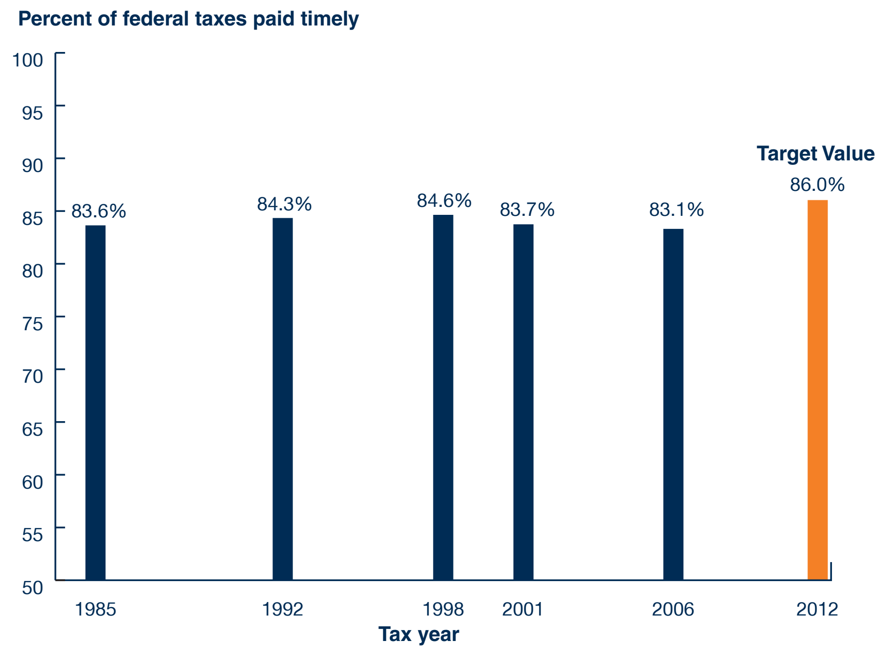
e-File Rate: All Major Tax Returns

Although the IRS has tracked the rate of electronic filing for individual tax returns since its inception in 1987, this long-term measure is somewhat broader and gauges the percentage of all major tax returns filed electronically by individuals, businesses, and tax exempt entities. Major tax returns are those in which filers account for income, expenses, and/or tax liabilities. The target value is for 80 percent of all major tax returns by individuals, businesses, and tax exempt entities be filed electronically by 2012.



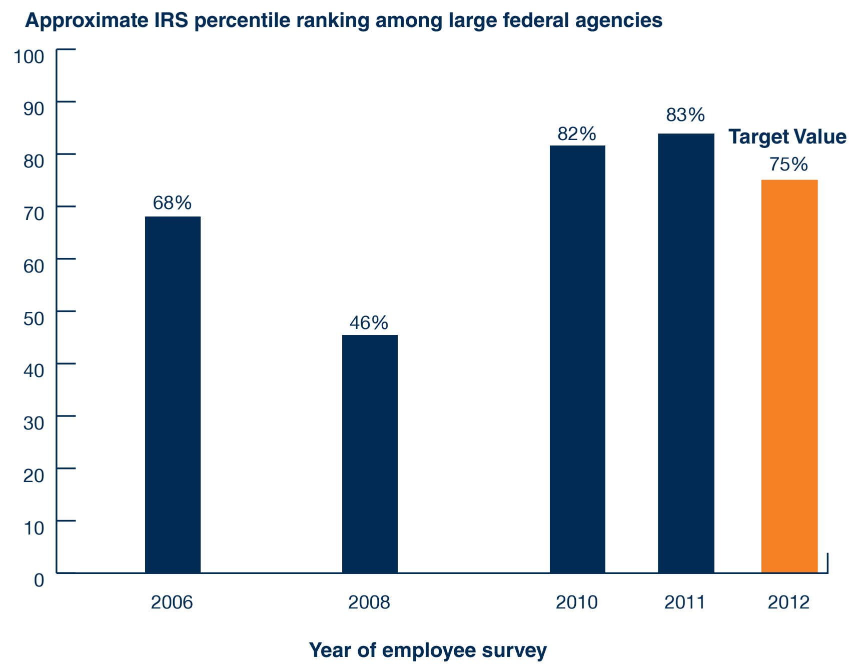
Voluntary Compliance Rate

The Voluntary Compliance Rate (VCR) is an estimate of the amount of tax for a given year that is paid voluntarily and timely. It is expressed as a percentage of the estimate of true tax liability for that year, reflecting the impact of non-filing, underreporting, and underpayment combined. The most recent VCR is based primarily on the IRS National Research Program evaluation of 2006 individual income tax returns and extrapolation of earlier estimates attributed to other taxpayer segments. The target value is to reach a VCR of 86 percent by tax year 2012.



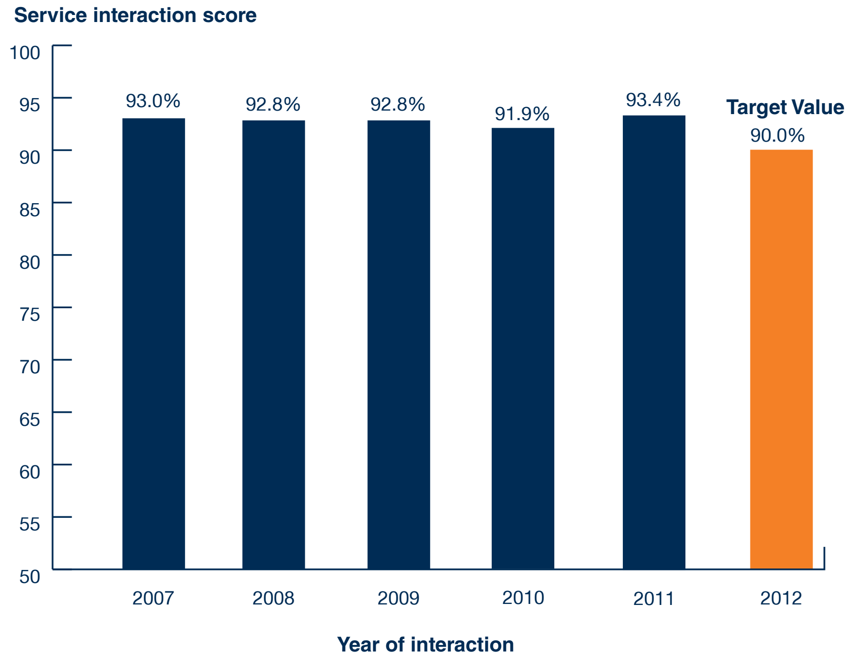
Employee Engagement Index

The US Office of Personnel Management conducts an annual employee survey to obtain feedback on a wide range of workplace issues. Using 11 questions from that survey, the IRS has developed an index that measures employee engagement and is using the index to compare itself to other large Federal agencies with 20,000 or more civilian employees. The target value is for the IRS to remain in the top quartile among the large federal agencies by 2012 based on that employee engagement index.



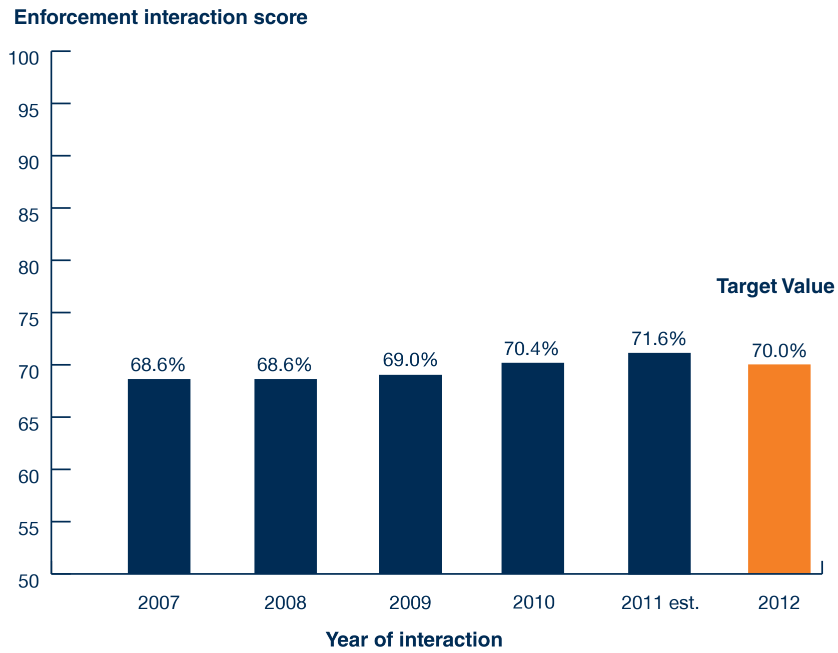
Service Interaction Score

The service interaction score attempts to measure taxpayer satisfaction with the services that they received in-person at IRS offices as well as through toll-free telephone service. It captures more than 90 percent of service program interactions with taxpayers through these channels. The IRS target value is to retain a score of at least 90 percent through 2012.



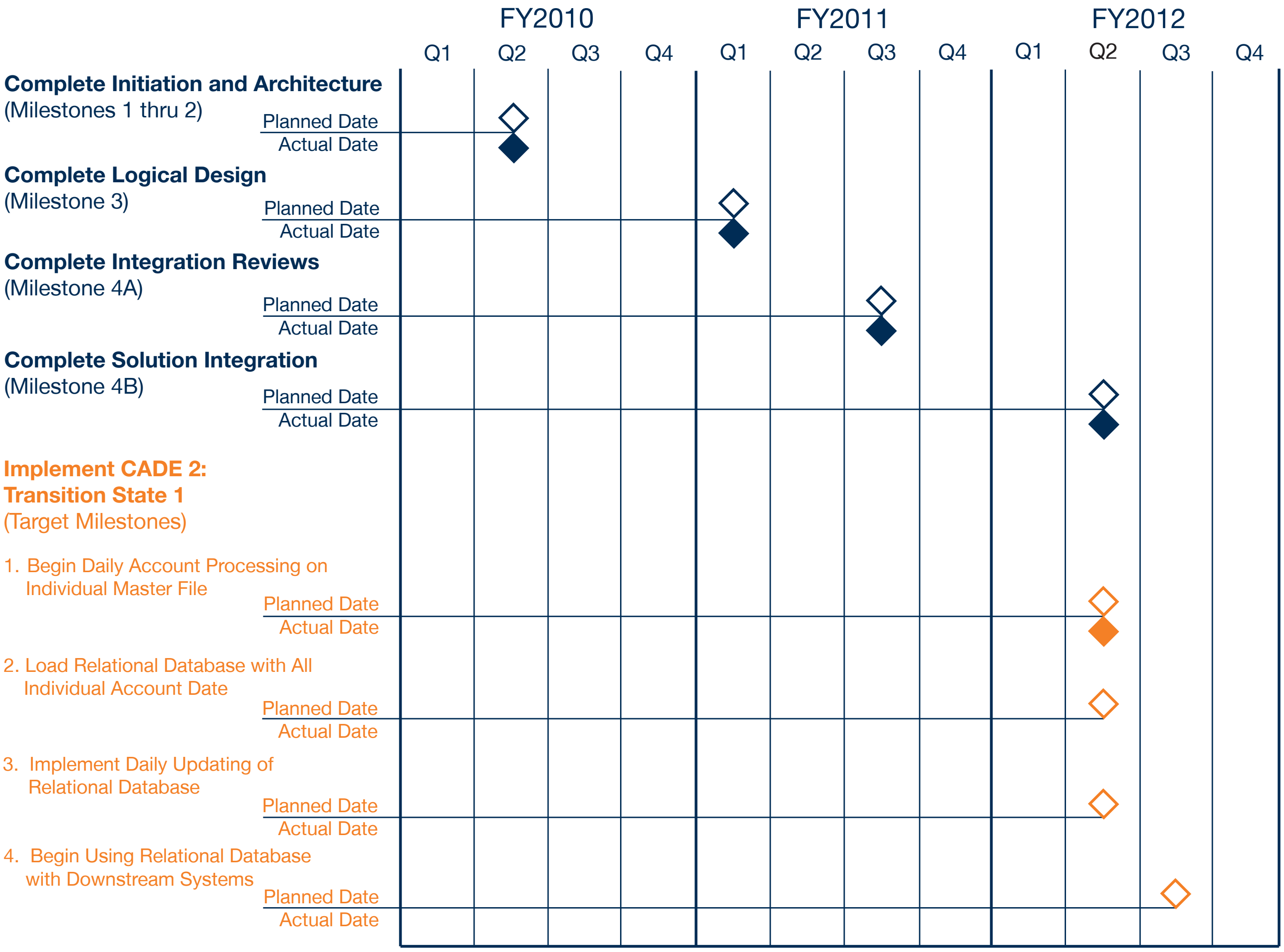
Enforcement Interaction Score

The enforcement interaction score attempts to measure the extent to which taxpayers contacted as part of the IRS compliance efforts, such as its examination and collection programs, feel that the process was satisfactory. It attempts to measure taxpayer interactions independent of the ultimate outcome of the enforcement activity, although it is likely that the final outcome of an IRS compliance contact impacts the rating some taxpayers provide under this interaction score. The score captures more than 90 percent of enforcement program interactions with taxpayers. The IRS target value is to attain a score of at least 70 percent by 2012.



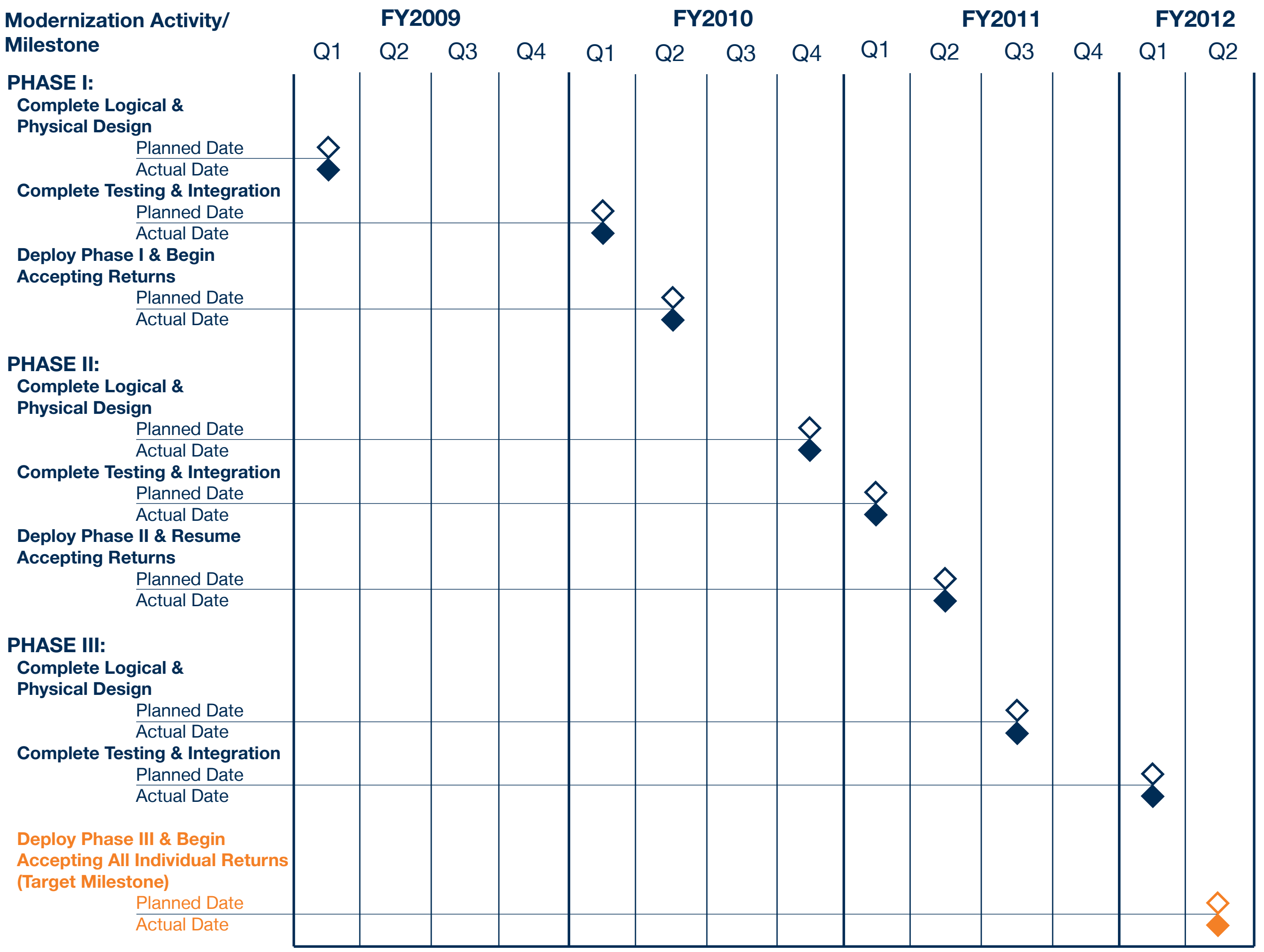
Modernization - Delivery of Customer Account Data Engine 2

The Customer Account Data Engine (CADE) program is a key component of the IRS' information technology Business Systems Modernization (BSM) efforts and is intended to eventually replace the antiquated Individual Master File processing system, which is the central tax accounting system for all individual taxpayers. In fiscal year (FY) 2009, the IRS restructured the CADE program, designating it CADE 2, and articulated as a target milestone establishing a modern relational database for its central tax accounting system by the 2012 filing season. This relational database would be part of a greatly enhanced computing environment, described by the IRS as "Transition State 1," that would also provide daily updating of taxpayer accounts, in contrast to traditional master file processing capabilities that only accommodate weekly updating.



Modernization: Delivery of Form 1040 MeF

The Form 1040 Modernized e-File (MeF) program is another key component of the IRS' information technology Business Systems Modernization (BSM) efforts and will eventually replace the outdated legacy electronic filing (e-file) system for individual income tax returns. The Form 1040 MeF system is an Internet-based application that greatly facilitates e-file by using flexible, industry standard technology and MeF will enable better customer service to taxpayers and tax professionals, and improved IRS efficiency. During Phase I and II of MeF implementation, the IRS will accommodate the basic Form 1040 return and approximately 20 of its more common forms and schedules. Phase III reflects the target milestone in which the Form 1040 MeF system is capable of handling all individual income tax returns.



V. Conclusion

Tax administration performs a critically important but frequently underappreciated role in our national economy, and the performance of the IRS is key to successful tax administration. It is in our collective national interest, as well as the personal interest of every taxpayer, that the IRS successfully achieves its mission.

The IRS was faced with a number of challenges during FY2011 and has generally met its performance goals. The IRS was forced to delay the start of the filing season for approximately nine million taxpayers, but by mid-February, the IRS was able to process all returns.

2011 was notable for some positive developments, including the rollout of the IRS' first smart phone application, the implementation of the Preparer Tax Identification Number (PTIN) for registered tax return preparers, a significant growth in the number of individual tax returns filed electronically, and the administration of a number of complex tax law changes.

The most significant service problem was the level of service (LOS) on IRS toll-free telephones. During FY2011, the LOS was only 70 percent, a drop of four percentage points over the 74 percent achieved in FY2010, and far below the 80 percent level the Board considers acceptable for good taxpayer service. However, despite the low LOS, the IRS continued to achieve high accuracy rates for telephone inquiries.

With respect to its long-term goals, the IRS made good progress in modernizing its IT systems, fielding two major systems in early 2012, the CADE 2 and MeF programs. With respect to its other previously reported weakness, the tax gap, the IRS has not been able to demonstrate with quantitative measures that it has improved the net compliance rate or reduced the tax gap, although a number of IRS initiatives have good potential to increase taxpayer voluntary compliance in the future.

The IRS Oversight Board will continue to evaluate the IRS' performance to determine whether these actions lead to improved tax administration outcomes in the future. A key element of the Board's oversight will be to use measures to assess how changes in tax administration deliver measureable benefits to taxpayers. The Oversight Board will work with the IRS to update the *IRS Strategic Plan 2009-2013* and develop the Board-approved performance measures to evaluate the IRS' performance in accomplishing the updated strategic plan.

Appendices

1: Selected Major Legislative and Administrative Provisions That Created Significant Challenges for the IRS During the 2007 through 2011 Filing Seasons

2: IRS FY2011 Performance Review

3: Summary of Stakeholder Comments 2011

4: Biographies of Private-Life Members

5: FY2011 IRS Oversight Board Operations

Appendix 1.
Selected Major Legislative and Administrative Provisions That Created Significant Challenges for the IRS During the 2007 through 2011 Filing Seasons

Appendix 1 provides a listing of major legislative tax provisions enacted from 2007 through 2011 that presented tax administration challenges to the IRS, taxpayers, and tax preparers. The IRS implementation of these provisions has been audited extensively by both GAO and TIGTA, and the information in the appendix has been designed for a two-fold purpose: 1) to describe the impacts the enacted tax provisions had on the filing season, and 2) to summarize the GAO and TIGTA audit findings on the effectiveness of the IRS implementation. A review of this information leads the Board to conclude that:

- late passed legislation has caused significant adverse effects on the IRS, tax preparers and taxpayers, especially because of delays in the start of several filing seasons;
- the IRS, taxpayers and tax preparers have faced a steady stream of new and novel tax provisions that demand attention, and which have required significant new taxpayer assistance and enforcement efforts that have drawn resources away from other IRS service and enforcement efforts;
- the IRS, to date, has generally met the challenges of implementing these new provisions, but not without difficulty in some cases, especially because a number of these new tax provisions have experienced a significant degree of misreporting and fraud; and
- reduced IRS budgets weaken the IRS' capacity to implement new tax provisions that place additional demands on IRS service and enforcement resources.

2007 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Tax Relief and Health Care Act of 2006 • Legislation extended certain existing tax deductions such as those relating to deductions for state and local sales taxes. • This late-passed legislation forced approximately one million taxpayers to delay their return filing and any associated refund claim for about 3 weeks while IRS finalized its system programs and testing. • Required taxpayers to make, and IRS to process, unique annotations on paper tax returns to claim certain deductions.	• IRS improved most filing season services during 2007: electronic filing grew and several IRS web site measures improved such as customer satisfaction; meanwhile, access to IRS telephone assistance and the associated IRS response accuracy were comparable to the prior year (GAO-08-38). • Overall, IRS correctly implemented the key tax law and administrative changes with no significant delays in returns processing during the 2007 filing season (TIGTA Report: 2007-40-187). • IRS provided taxpayers with effective access to telephone service; however, the quality and level of service for Spanish applications were lower than those in English (TIGTA Report: 2007-40-160). • There were some areas in which taxpayers did not take full advantage of the benefits the tax law and administrative changes provided (TIGTA Report: 2007-40-187).
Telephone Excise Tax Refund (TETR) • Allowed for a one-time refund on income tax returns applicable to all who paid telephone excise tax, regardless of obligation to file a tax return.	• IRS received fewer TETR requests from individuals than expected; early data showed minimal impact on returns processing and taxpayer service (GAO-07-695). • With some exceptions, IRS successfully planned and implemented the TETR program for individuals and businesses; this includes revising forms, developing strategies to educate taxpayers, and developing methods for taxpayers to estimate their TETR claim without burden of obtaining years of telephone bills (TIGTA Reports: 2007-30-178 and 2008-30-091). • Despite IRS efforts, much of the over-collected tax went unclaimed and un-refunded (TIGTA Reports 2007-30-178 and 2008-30-091). • IRS did not scrutinize many questionable TETR claims by individuals because of competing priorities to examine other issues on returns (TIGTA Report: 2007-30-178). • IRS effort to identify overstated TETR claims by businesses were ambitious; however, minimum selection criteria for some businesses were inconsistently applied (TIGTA Report: 2008-30-091). • A TIGTA survey indicated that 27 percent of preparers who did not compute the TETR claim for their business clients due to cost involved were not aware that IRS had offered a simplified method to estimate the refund (TIGTA Report: 2008-30-175).

2008 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Tax Increase Prevention Act of 2007 • Legislation extended Alternative Minimum Tax (AMT) "patch" and certain AMT credit offsets. • This late-passed legislation forced approximately 3 to 4 million taxpayers to delay their return filing and any associated refund claim for about 4 weeks, while IRS finalized its system programs and testing.	• Overall, the IRS correctly implemented the tax law changes enacted late in the year with no significant delays in the processing of tax returns (TIGTA Report: 2008-40-183). • IRS did not achieve its toll-free assistance and level of service performance goals because of the high volume of calls regarding the economic stimulus payments (TIGTA Report: 2008-40-168).
Mortgage Forgiveness Debt Relief Act of 2007 • Allowed taxpayer to generally exclude from income forgiven mortgage debt used to buy or improve principal residence.	• The amount of forgiven mortgage debt excluded from income could be significant (GAO-10-997). • IRS faced several compliance challenges in administering this complicated tax provision, including limited information on current IRS forms, and return on investment considerations on whether to devote limited IRS enforcement resources to enforce this provision (GAO-10-997).
Economic Stimulus Act of 2008 • Mandated that IRS send stimulus payments to over 100 million households based on who filed a tax year 2007 during the 2008 filing season. • Congressional passage occurred approximate 3 weeks after the start of the 2008 filing season.	• As of June 13, 2008, IRS had generated 129 million economic stimulus payments, totaling more than $89 billion with an accuracy rate of 99.6 percent (TIGTA Report: 2008-40-174). • The first stimulus payments were issued via direct deposit on April 28, 2008 (TIGTA Report: 2009-40-069). • IRS made significant efforts to ensure eligible taxpayers received their stimulus payment such as sending advance information notices to more than 130 million taxpayers who filed a tax year 2006 return, initiating outreach efforts to retired individuals and veterans who normally have no need to file a tax return, and initiating outreach efforts to individuals whose stimulus payments were returned as undeliverable (TIGTA Reports: 2009-40-069 and 2008-40-100). • Demand for telephone assistance related to the economic stimulus legislation was unprecedented and led to a significant reduction in IRS telephone service (GAO-08-916T). • IRS decision to reallocate hundreds of collections staff to help address large telephone call demand resulting from economic stimulus legislation resulted in up to $565 million in foregone enforcement revenue (GAO-08-916T).

2009 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Economic Stimulus Act of 2008 • Allowed taxpayers who did not receive the full stimulus payment during the 2008 filing season to receive the unpaid portion on their tax year 2008 return as a Recovery Rebate Credit during the 2009 filing season.	• TIGTA identified $1.2 million in false stimulus payments that were issued by the IRS in 2008 and another $138 million that could be potentially released erroneously in 2009 unless the IRS made improvements in its fraud referral process (TIGTA Report: 2009-10-049). • Overall, the IRS successfully planned the implementation of the Recovery Rebate Credit and issued approximately $8.5 billion in credits to approximately 21 million taxpayers (TIGTA Report: 2009-40-129). • Taxpayers had difficulty determining whether they qualified for this credit and early in the filing season the IRS had already identified over 5 million tax returns with Recovery Rebate Credit errors (TIGTA Report 2009-40-058). • TIGTA found the IRS calculation errors in less than one percent of the cases but also identified a programming error, which the IRS took immediate action to correct, that could have potentially allowed almost 6 million taxpayers to erroneously claim nearly $1.6 billion in credits (TIGTA Report: 2009-40-129). • Legislation did not provide the IRS with math error authority to prevent individuals without valid SSNs from receiving the credit at the time the returns were processed, and as a result the IRS provided more than $27 million in credits to taxpayers without a valid SSN (TIGTA Report: 2009-40-129).
Housing and Economic Recovery Act of 2008 • Provided taxpayers a First Time Homebuyer (FTHB) credit of up to $7,500 on purchase of home, but required them to repay the credit over 15 years starting in 2011 filing season. • While the FTHB credit was initially contained in the Housing and Economic Recovery Act of 2008, it was subsequently expanded, and the repayment provision eliminated in most instances, under the American Recovery and Reinvestment Act of 2009.	• The IRS met many of its processing goals during the 2009 filing season, but telephone access remained low, due in part to calls about tax law changes; despite the heavy call volume, IRS accuracy remained above 90 percent (GAO-10-225). • The IRS had a successful 2009 filing season despite the unique challenges it faced (TIGTA Report 2009-40-142). • The varied FTHB credit provisions within the Housing and Economic Recovery Act versus the American Recovery and Reinvestment Act may have confused taxpayers and also presented the IRS with significant challenges to ensure the credit was used correctly as authorized (TIGTA Report 2010-41-069). • Nearly one million taxpayers will be required to repay the FTHB credit because their homes were purchased in 2008; however, a TIGTA analysis found that IRS had incorrectly recorded the purchase date on 4 percent of FTHB claims (TIGTA Report 2010-41-086)

2009 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
American Recovery and Reinvestment Act of 2009 (Recovery Act) • Congressional passage occurred approximately four weeks after start of the 2009 filing season. • Provided taxpayers a revised credit of up to $8,000 on purchase of home with need to repay only if home is resold or ceases to be primary residence within 3 years. • Allowed small businesses to apply certain 2008 net operating losses (NOLs) against tax liabilities from the previous 5 years. • Provided federal subsidies for state and local bonds, including Build America Bonds, through certain credit provisions.	• The 2009 filing season provided challenges for the IRS due to the two significant tax laws that provided a new FTHB credit, and a massive bailout and tax relief package, which entailed 116 different tax provisions (TIGTA Report: 2009-40-058). • The Recovery Act posed significant implementation challenges for the IRS because it had over 50 provisions, many of which were immediate or retroactive and had to be implemented during the 2009 filing season (GAO-10-349). • The IRS responded quickly to the implementation challenges of the Recovery Act; however, that quick response entailed tradeoffs, such as not making some computer changes to collect data (GAO-10-349). • Nearly 50,000 taxpayers may not have claimed the full amount of the FTHB credit to which they were entitled; IRS agreed to contact the applicable taxpayers to inform them (TIGTA Report: 2009-41-144). • Despite the fact that the Recovery Act was enacted during the filing season, the IRS issued timely and clear guidance that helped foster compliance with the new NOL provisions; by the end of 2009, IRS processed approximately 44,000 NOL claims totaling more than $3 billion (TIGTA Report: 2010-41-070). • The initial guidance on bonds published by the IRS was quick, complete, accurate, and consistent with the requirements of the Recovery Act (TIGTA Report: 2010-11-035). • Generally, all complete requests for payment of Build America Bonds (BAB) federal subsidies were processed accurately and timely by the IRS, and without indications of fraudulent or erroneous disbursements; as of September 2009, state and local governments received almost $26.4 billion in funding through 315 BAB issuances (TIGTA Report: 2010-11-083).

2010 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
American Recovery and Reinvestment Act of 2009 (Recovery Act) • Provided a Making Work Pay (MWP) Credit to working individuals. • Increased allowable credit amount for home-owners who make certain energy efficiency improvements. • Amended the Hope Scholarship credit to provide for a refundable tax credit called the American Opportunity Tax (AOT) credit. • Included a number of provisions that encouraged the purchase of qualified motor vehicles (QMV) and vehicles that operate on clean renewable sources of energy.	• The IRS dealt with a number of challenges during the 2010 filing season, including significant tax law changes such as the MWP credit (GAO-11-111). • The IRS corrected about 7.7 million errors associated with MWP credit, including about 60 percent in favor of the taxpayer (GAO-11-691T). • IRS balanced its resources across filing season activities with improvements in some areas but fluctuations in others: electronic filing and IRS web site visits increased, level of service to callers seeking live IRS assistance improved compared to 2009, and the accuracy of answers remained high; however, average wait time for telephone service increased compared to 2009, and millions of taxpayer refunds were delayed primarily because of the time needed to correct taxpayer errors associated with the MWP Credit (GAO-11-111). • The IRS implemented the MWP Credit in accordance with the intent of Congress by advancing it to taxpayers through a decrease in Federal income tax withholding rates (TIGTA Report 2011-41-002). • The IRS initiated a significant outreach program to inform taxpayers about the change in withholding associated the MWP credit and its potential to leave certain taxpayers under-withheld and owing taxes at the time they are due (TIGTA Report 2011-41-002). • Despite IRS outreach actions, over 13 million taxpayers were or were expected to be negatively affected by the MWP credit withholding rate changes, including over 1 million who likely faced an increase in their Estimated Tax Penalty amount (TIGTA Report: 2011-41-002) • A survey of taxpayers who appeared to be negatively impacted by the MWP credit withholding changes indicated that most were not aware of the credit or its effect on their taxes (TIGTA Report: 2011-41-002). • More than 6.8 million individuals claimed more than $5.8 billion in Residential Energy credits on returns filed during 2010. However, the IRS could not verify whether individuals claiming Residential Energy credits were entitled to them at the time the returns were processed because the IRS did not require individuals to provide any third-party documentation to support the claims (TIGTA Report: 2011-41-038). • In a review of a statistically valid sample of 150 tax returns claiming the Residential Energy credit, TIGTA was unable to confirm home ownership for 30 percent of the taxpayers, which is a requirement to claim the credit (TIGTA Report: 2011-41-038).

2010 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
	• The IRS did not have effective processes to identify taxpayers who claim erroneous education credits. As of May 2010, TIGTA identified 2.1 million taxpayers receiving $3.2 billion in education credits ($1.6 billion in refundable AOT credits and $1.6 million in nonrefundable credits) that appear to be erroneous; and at least 1.1 million of these returns were submitted through a paid return preparer. Subsequent IRS audit results on a sample of these cases identified by TIGTA as potentially erroneous showed that 72 percent were in fact erroneous (TIGTA Report: 2011-41-083). • Through November 2010, nearly 4.4 million individuals claimed over $7.2 billion in Qualified Motor Vehicle (QMV) deductions. The IRS could not verify whether individuals claiming a QMV deduction were entitled to the deduction at the time of filing because the taxpayers did not have to provide any third party supporting documentation. In addition, the IRS processes to identify and properly verify potentially erroneous QMV deductions were not effective (TIGTA Report: 2011-41-037).
Worker, Homeownership, and Business Assistance Act of 2009 • Extended FTHB credit another five months (to April 30, 2010) and allowed a credit up to $6,500 for certain longtime homeowners purchasing new homes. • Provided IRS with "math error authority" to deny erroneous FTHB credit claims upfront during the IRS return processing phase. • Expanded and extended the net operating loss (NOL) carry back provisions for businesses.	• As of early 2010, the IRS still did not have the ability to identify individuals who received the FTHB credit but who would have some repayment requirements because the home ceased to be their main residence; the IRS was, however, developing a comprehensive strategy to address this issue (TIGTA Report 2010-41-086). • In May 2009, the IRS implemented a number of controls to prevent inappropriate FTHB credit claims from being issued before the claims were processed; however, certain follow-up action by IRS was still needed as of March 2010 on fraudulent and questionable claims processed before the controls were implemented (TIGTA Report 2010-41-069). • For processing years 2009 and 2010, IRS provided over $27 billion in FTHB credits to almost 3.9 million taxpayers (TIGTA Report: 2011-41-035). • The IRS has taken positive steps to help prevent inappropriate FTHB credit claims from being issued, including implementation of filters to identify questionable claims before they are processed and application of math error authority to deny claims if proper documentation is not provided. However, these actions occurred after many FTHB credit claims had already been processed during prior filing seasons and which allowed potentially $513 million in erroneous FTHB credits to be issued (TIGTA Report: 2011-41-035)

2010 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
	• The IRS received millions of calls related to the FTHB and the MWP credits; approximately 9 percent of all calls received (GAO-11-111). • The IRS timely implemented procedures to identify and reject extended NOL claims inappropriately submitted by Troubled Asset Relief Program recipients, but was somewhat late in implementing controls to apply a limit on the amount of the loss carried back to the fifth year (TIGTA Report 2010-41-070).
Patient Protection and Affordable Care Act (ACA) • Created several new credits and other tax provisions, including some with immediate impact on IRS tax administration activities during 2010 filing season—such as the two noted below. • Signed into law in March 2010, the ACA required the IRS to establish the Qualifying Therapeutic Discovery Project (QTDP), in consultation with the Department of Health and Human Services (HHS), within 60 days of the enactment of the law. • The new ACA excise tax on indoor tanning services ("tanning tax") became effective July 1, 2010 and is due and payable quarterly.	• The IRS met legislative requirements in establishing, processing and awarding credits and grants to QTDP Program recipients, despite the unprecedented short time period allotted by the law. IRS actions included: establishing the program and informing the public on May 21, 2010; processing over 5,600 applications seeking certification of eligibility for the QTDP; and enabling Treasury and HHS to award $1 billion in QTDP credits and grants on November 3, 2010 (TIGTA Report 2011-40-100). • The IRS developed an outreach plan, updated the excise tax form and instructions, and made preparation for processing the returns with the tanning tax. The IRS also developed a plan for dealing with noncompliance (TIGTA Report 2011-40-115). • Identifying business taxpayers subject to the tanning tax has been one of the more challenging tasks the IRS has faced. While outside sources suggested that 25,000 businesses would be subject to the tax, IRS filings for the first three quarters averaged only around 10,300 (TIGTA Report 2011-40-115). • The IRS could have sent more timely notices to businesses who may owe the tanning tax, so as to reduce the interest and penalties associated with any resulting late filed returns. Also, the information IRS used to identify potential late filers appeared incomplete. In addition, the IRS publication containing information about excise tax requirements was not updated until more than a year after the effective date of the tanning tax (TIGTA Report 2011-40-115).

2011 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (Tax Relief Act of 2010) • Legislation extended certain existing tax provisions enacted under the Economic Growth and Tax Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003 and the Recovery Act of 2009, as well as the AMT "patch." • This late-passed legislation forced approximately nine million taxpayers to delay their return filing and any associated refund claim for about 4 weeks while IRS finalized its system programs and testing.	• The passage of significant tax laws affected the 2011 filing season. The IRS timely processed the majority of tax returns during 2011 filing season; however, the late passage of legislation delayed the filing of some individual taxpayers as the IRS worked to reprogram its computer systems to accommodate certain provisions extended by the Tax Relief Act of 2010 (TIGTA Report: 2011-40-128). • Electronic Return Originators held approximately 6.5 million e-file returns and IRS held approximately 100,000 paper returns until the affected returns could be processed by the IRS starting February 14, 2011 (TIGTA Report: 2011-40-128). • The IRS inability to accept certain returns until mid-February impacted tax professionals and taxpayers. IRS received about 21 percent fewer returns through mid-February 2011 compared to 2010 and representatives of tax professional groups stated that some taxpayers believed that the processing delay applied to all tax returns effectively condensing the filing season for all parties involved (GAO-11-481). • For the 2011 filing season, the IRS administered a number of complex tax law changes, including the Residential Energy Property Tax credit and provisions of the Tax Relief Act of 2010 (GAO-11-481). • During the 2011 filing season, the IRS received 83 million calls, an increase over 2010 and substantially more than the 57 million received in 2007; meanwhile the IRS level of service (LOS) on its toll-free telephone lines decreased to 72 percent in 2011 compared to 76 percent in 2010 and 81 percent in 2007—the most recent year such service has exceeded 80 percent (GAO-12-176). • The IRS does not have math error authority to verify compliance with lifetime limits on amounts that can be claimed. For example, the IRS does not have the authority to verify that the Residential Energy credits claimed for tax years 2009 and 2010 do not exceed the lifetime limit of $1,500 (GAO-11-481). • TIGTA's review of 2011 filings through April 30, revealed that implementing some legislative provisions such as the FTHB Credit, Adoption Credit, Nonbusiness Energy Property Credits, and Plug-in Electric and Alternative Motor Vehicle Credits resulted in an IRS inability to identify around 141,000 taxpayers erroneously claiming $140 million (TIGTA Report: 2011-40-128).

2011 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Worker, Homeownership, and Business Assistance Act of 2009 • Mandates electronic filing by certain preparers filing income tax returns for individuals, estates or trusts (starting with the 2011filing season)	• The IRS has taken several positive steps to implement the preparer e-file mandate such as communicating the details of the implementation and publishing proposed regulations for public comment (GAO-11-344). • Preparers interviewed by GAO who were new to electronic filing said they experienced increased burdens due to the mandate; other preparers who were e-filing prior to the mandate said they experienced similar problems when they first began e-filing, but now find that it helps their business (GAO-12-33). • For the first few years, the IRS plans to use a "soft" approach to enforcement of the mandate with emphasis on educating and collaborating with preparers (TIGTA Report 2012-40-010). • IRS plans for identifying preparers not complying with the mandate are not fully developed because IRS does not know the extent of noncompliance and it may be low (GAO-12-33). • The IRS does not have authority under the Internal Revenue Code to assess penalties on preparers who fail to comply with the e-file mandate; however the IRS may impose sanctions for such noncompliance under Treasury regulations that govern practice before the IRS—but the process is costly and the penalties may be harsher than needed (GAO-12-33).
Paid Tax Return Preparer Regulation • Requires that all paid tax return preparers get a newly reconstituted Preparer Tax Identification Number (PTIN) and use it on all returns they submit starting with the 2011 filing season.	• For the 2011 filing season, the IRS implemented a registration requirement for paid preparers that includes obtaining a preparer tax identification number (PTIN); IRS plans to implement competency testing later in 2011 (GAO-11-336). • As of mid-July 2011, 717,000 paid preparers had registered for a PTIN (GAO-11-868T). • The new preparer requirements, which include requirements for registration, competency testing, continuing professional education, ethical standards, and enforcement, will take several years to implement, and it will not be until 2014 that all preparers will be subjected to all suitability and competency tests (TIGTA Report: 2010-40-127). • IRS is funding the paid preparer requirements through user fees, which it is setting consistent with established criteria for cost estimating (GAO-11-336). • As of March 2011, the IRS had yet to document how it plans to use the preparer regulations to improve compliance, how it will assess whether the requirements provide their intended benefits, and what baseline data it needs to accomplish that assessment (GAO-11-336).

2011 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Patient Protection and Affordable Care Act (ACA) • Legislation created or expanded several credits and other tax provisions, including some with particular impact on IRS tax administration activities during the 2011 filing season—such as the two noted below. • The ACA enabled eligible small businesses to claim the Small Business Health Care Tax (SBHCT) credit as part of their general business credit starting with the 2010 income tax return filed in 2011. • The ACA increased the Adoption Credit to $13,170 for tax year 2010 and made the tax credit refundable.	• The IRS timely completed actions to plan for and implement the SBHCT credit. The volume of claims has been low despite IRS efforts to inform 4.4 million taxpayers who could potentially qualify for the credit. As of mid-May 2011, 228,000 taxpayers had claimed the SBHCT credit for a total of more than $278 million (TIGTA Report 2011-40-103). • The IRS used various tools to inform taxpayers about the new requirements for claiming the adoption credit, but missed some opportunities to further communicate about the documentation requirements. As a result, taxpayers submitted a majority of returns with either no, or insufficient documentation (GAO-12-98). • As of August 2011, taxpayers filed just under 100,000 returns claiming about $1.2 billion in adoption credits—68 percent of which were selected for IRS correspondence audits mainly due to inadequate documentation. However, completed audits on over half of these returns indicated that 83 percent were legitimate claims (GAO-12-98).

Appendix 2.
IRS FY2011 Performance Report

The IRS Oversight Board and its committees discuss performance with IRS executive leadership on a quarterly basis, using IRS Business Performance Review reports to monitor key performance data and evaluate progress toward achieving the operational and strategic performance targets.

This appendix depicts the performance scorecards the Board uses to monitor the IRS' annual performance. The scorecards contain measures from the IRS performance budget (shown in italics) as well as supplementary measures the IRS Oversight Board designates as "Standards of Performance." The combined measures create a balanced view of the IRS' performance by providing a robust set of measures that emphasize achieving desired outcomes. In addition to showing the planned and actual results from FY2011, the scorecards show actual results from FY2009 and FY2010, and planned FY2012 targets for comparison purposes.

The scorecards are organized by IRS' strategic goals and categorized by type of performance measure. A definition of these measures and their importance to taxpayers is contained in Table 2-1 below.

Table 2-1 Types of Performance Measures Evaluated by the Oversight Board and Their Importance

Measure Definition	Why the Measure is Important to Taxpayers
Quality Measures: evaluate key quality characteristics of taxpayer products and services, such as completeness and accuracy.	Quality improvements decrease the burden of erroneous information, and increase the public's trust and confidence in the IRS.
Timeliness Measures: evaluate how quickly an IRS product or service can be completed.	Surveys indicate that timeliness is highly correlated with taxpayer satisfaction.
Workload Measures: illustrate the volume of products or services produced by a resource (such as an FTE, project team, or organization) over a period of time.	Higher workloads generally indicate increased levels of productivity, therefore saving both taxpayers and the IRS valuable time and money.
Cost-Effectiveness (CE) Measures: evaluate the resources (expressed in dollars) necessary to achieve an outcome.	Higher cost effectiveness is beneficial for both taxpayers and the IRS.
Earned Value Measures: evaluate the actual cost and schedule results compared to planned cost and schedule targets during project development.	Earned value measures monitor the IRS' ability to accomplish its work within its cost and schedule goals, delivering value to taxpayers.
Behavioral Outcome Measures: evaluate how effectively desired behaviors, such as using the IRS web site, filing electronically, or voluntarily fulfilling their tax obligations, are being achieved.	Desired taxpayer behaviors promote fair and effective tax administrative.
Satisfaction Outcome Measures: evaluate value of the services provided to taxpayers or internal customers during various transactions.	Satisfaction measures evaluate how effectively customer and taxpayer needs are being met.

Reporting Performance Against Targets

The IRS establishes annual targets for many of its measures based on resources it is assigned. IRS management aligns allocated resources with organizational performance measures to develop realistic performance targets and expectations. Actual performance is monitored during the fiscal year and progress in achieving targets is assessed as follows:

- GREEN means annual performance results reached or exceeded the annual performance target established for the measure.
- YELLOW means annual performance results were below expectations, but were within 10% of the expected annual performance target.
- RED means the performance results were significantly below expectations and performance failed to meet the expected level by more than 10%.

The performance scorecards in the Board's *Annual Report* contain a few measures or indicators that did not have FY 2011 performance targets. In these cases, the performance category is based on the comparison of current year performance against prior years. The following tables contain the performance scorecards for the 66 measures the Oversight Board uses to evaluate IRS' performance during the fiscal year.

Performance Measures for Strategic Goal 1:
Improve Service to Make Voluntary Compliance Easier

	Performance Measure	Desired Change	Status	FY09 Actual	FY10 Actual	FY11 Actual	FY11 Plan	FY12 Plan
Behavioral Outcome Measures	*Percent of eligible taxpayers who file for Earned Income Tax Credit (EITC)*	↑	TBD	NA	NA	NA	75-80%	75-80%
	Taxpayer self assistance rate	↑	GREEN	69.3%	64.4%	70.1%	68.7%	72.2%
	Wage & Investment average wait time on hold (in seconds)	↓	RED	526	650	779	698	1,129
	Primary abandoned call rate	↓	RED	15.8%	15.8%	18.3%	No target identified	No target identified
	Secondary abandoned call rate	↓	RED	19.4%	20.9%	24.1%	No target identified	No target identified
Quality Measures	*Customer accuracy: tax law (phones)*	↑	GREEN	92.9%	92.7%	93.4%	92.7%	92.7%
	Customer accuracy: accounts (phones)	↑	GREEN	94.9%	95.7%	96.0%	95.0%	95.0%
	Correspondence Error Rate with systemic errors	↓	GREEN	5.3%	4.9%	4.5%	5.2%	5.1%
	Deposit Error Rate - combined	↓	GREEN	0.7%	0.5%	0.6%	1.0%	1.0%
Timeliness Measures	*Timeliness of providing critical individual filing season tax products to the public*	↑	GREEN	96.8%	95.3%	96.3%	94.0%	95.0%
	Timeliness of providing critical Tax Exempt/ Government Entities and Business tax products to the public	↑	GREEN	95.2%	97.7%	96.4%	91.0%	93.0%
	Sign-up time (days) - Customer engagement (HCTC)	↓	GREEN	91.3	124	117	124	125
	Refund timeliness: individual (paper)	↑	GREEN	99.2%	96.1%	99.4%	97.0%	98.0%
	EO determination letters timeliness (days)	↓	GREEN	116	108	104	141	121
	EP determination letters timeliness (days)	↓	GREEN	303	212	370	375	318
Workload Measures	*Percent individual returns e-filed*	↑	GREEN	65.9%	69.3%	76.9%	74.0%	79.0%
	Percent of business returns e-filed	↑	GREEN	22.8%	25.5%	31.8%	27.0%	32.0%
	Customer service representative level of service	↑	GREEN	70.0%	74.0%	70.1%	71.0%	61.0%
	Customer contacts resolved per staff year	↑	GREEN	12,918	10,744	12,419	12,074	13,200
	AUR telephone level of service	↑	GREEN	80.4%	80.7%	78.3%	80.0%	78.0%
Cost Effectiveness Measures	*Cost per taxpayer served (HCTC)*	↓	GREEN	$13.79	$9.52	$12.36	$10.00	$13.00
Satisfaction Measures	Exempt Organization (EO) determination customer satisfaction	↑	GREEN	67.0%	72.0%	74.0%	70.0%	74.0%
	Accounts management customer satisfaction (adjustments)	↑	GREEN	64.0%	65.0%	63.0%	63.0%	65.0%
	Practitioner toll-free customer satisfaction	↑	GREEN	94.0%	91.0%	90.0%	91.0%	90.0%

Measures presented in italics are contained in the IRS performance budget; those presented in roman type reflect supplementary measures the IRS Oversight Board designates as "Standards of Performance."

Performance Measures for Strategic Goal 2:
Enforce the Law to Ensure Everyone Meets Their Obligations to Pay Taxpes

	Performance Measure	Desired Change	Status	FY09 Actual	FY10 Actual	FY11 Actual	FY11 Plan	FY12 Plan
Quality Measures	*Field exam national quality review score*	↑	GREEN	85.1%	84.9%	85.8%	86.7%	85.8%
	Office exam national quality review score	↑	GREEN	92.1%	91.6%	90.4%	90.4%	90.4%
	Examination quality - industry	↑	GREEN	88.0%	87.0%	90.0%	89.0%	90.0%
	Examination quality - coordinated industry	↑	GREEN	95.0%	95.0%	96.0%	96.0%	97.0%
	Field collection national quality review score	↑	GREEN	80.5%	80.6%	80.3%	81.0%	78.0%
	Automated collection system (ACS) accuracy	↑	GREEN	94.3%	95.9%	93.0%	94.0%	94.0%
	Conviction rate	↑	GREEN	87.2%	90.2%	92.7%	92.0%	92.0%
Workload Measures	*Examination coverage - individual*	↑	GREEN	1.0%	1.1%	1.0%	1.1%	1.0%
	Examination coverage - business	↑	GREEN	5.6%	5.7%	6.2%	5.6%	5.4%
	Examination efficiency - individual	↑	GREEN	138	140	140	134	134
	Automated Underreporter (AUR) efficiency	↑	GREEN	1,905	1,924	2,007	1,980	2,067
	Automated Underreporter (AUR) coverage	↑	GREEN	2.6%	3.0%	3.3%	3.2%	3.2%
	Collection coverage - units	↑	GREEN	54.2%	50.1%	50.0%	49.1%	47.8%
	Collection efficiency - units	↑	GREEN	1,845	1,822	1,952	1,824	2,073
	Criminal investigations completed	↑	GREEN	3,848	4,325	4,697	3,900	4,000
	Number of convictions	↑	GREEN	2,105	2,184	2,350	2,135	2,175
	Tax Exempt/Government Entities determination case closures	↑	YELLOW	96,246	105,247	91,155	97,151	65,794
Satisfaction Measures	Correspondence exam CS (SB/SE)	↑	GREEN	54.0%	47.0%	47.0%	47.0%	47.0%
	Correspondence exam CS (W&I)	↑	GREEN	51.0%	50.0%	57.0%	51.0%	Baseline (Note 1)
	AUR CS (SB/SE)	↑	GREEN	59.0%	62.0%	62.0%	62.0%	62.0%
	AUR CS (W&I)	↑	GREEN	63.0%	69.2%	69.0%	No target	Baseline (Note 1)
	Compliance Services Collection Operations (CSCO) CS (SB/SE)	↑	GREEN	54.0%	57.0%	58.0%	57.0%	62.0%
	CSCO CS (W&I)	↑	GREEN	69.0%	70.3%	69.4%	70.0%	70.0%
	Field Collection CS	↑	GREEN	65.0%	68.0%	70.0%	68.0%	70.0%
	Field Exam CS	↑	GREEN	60.0%	60.0%	60.0%	Baseline (Note 1)	60.0%

Measures presented in italics are contained in the IRS performance budget; those presented in roman type reflect supplementary measures the IRS Oversight Board designates as "Standards of Performance."

Note 1: The term BASELINE indicates the IRS is developing new methodologies and a target value has not yet been established.

Performance Measures for Strategic Goal 2:
Enforce the Law to Ensure Everyone Meets Their Obligations to Pay Taxpes

	Performance Measure	Desired Change	Status	FY09 Actual	FY10 Actual	FY11 Actual	FY11 Plan	FY12 Plan
Timeliness Measures	W&I SC Correspondence Exam Timeliness (discretionary) (days)	↓	YELLOW	154	135	160	170	165
	W&I SC Correspondence Exam Timeliness (EITC) (days)	↓	GREEN	196	201	209	203	206
	SB/SE Correspondence Exam cycle time (EITC) (days)	↓	GREEN	180	199	200	193	193
	SB/SE Correspondence Exam Cycle Time (non-EITC) (days)	↓	GREEN	172	170	167	177	177
	CSCO days to close - business	↓	GREEN	24.1	24.0	19.4	25	25
	CSCO days to close - individual	↓	GREEN	17.5	16.3	16.0	15.0	15.0
	Exam timeliness (CIC and industry combined) (months)	↓	YELLOW	30.0	27.7	31.5	29.0	30.0
	% OIC field cases closed in less than 9 months	↑	GREEN	82.9%	79.9%	83.0%	79.0%	81.5%
Cost Effectiveness Measures	*Conviction efficiency rate ($)*	↓	GREEN	$327,328	$324,776	$310,029	$350,000	$325,000

Measures presented in italics are contained in the IRS performance budget; those presented in roman type reflect supplementary measures the IRS Oversight Board designates as "Standards of Performance."

Performance Measures for Strategic Foundations: Invest for High Performance

	Performance Measure	Desired Change	Status	FY09 Actual	FY10 Actual	FY11 Actual	FY11 Plan	FY12 Plan
Earned Value Measures	*Percent of Business Systems Modernization (BSM) projects within +/- 10% schedule variance (Note 2)*	↑	GREEN	90.0%	100.0%	100.0%	90.0%	90.0%
	Percent of BSM projects within +/- 10% cost variance	↑	Note 2	60.0%	40.0%	71.4%	90.0%	90.0%
Satisfaction Measures	Internal customer satisfaction (MITS)	↑	GREEN	88.0%	87.0%	88.1%	90.0%	Baseline (Note 1)
Behavioral Outcomes Measures	Percentage of mission critical positions hires achieved (HCO)	↑	GREEN	100.0%	100.0%	99.0%	100.0%	100.0%
	Percentage of managers receiving leadership training timely (HCO)	↑	GREEN	77.0%	90.0%	92.0%	90.0%	90.0%
Quality Measures	FISMA Systems with Valid Authority to Operate (ATO)	↑	GREEN	98.0%	98.0%	99.0%	90.0%	90.0%
Timeliness Measures	Timeliness of completed service calls (MITS)	↑	RED	77.0%	74.6%	71.5%	90.0%	Baseline (Note 1)
Cost Effective Measures	Occupancy cost per rentable square foot (Note 3)	↓	GREEN	NA	$26.54	$28.15	NA	$29.42

Measures presented in italics are contained in the IRS performance budget; those presented in roman type reflect supplementary measures the IRS Oversight Board designates as "Standards of Performance."

Note 1: The term BASELINE indicates the IRS is developing new methodologies and a target value has not yet been established.

Note 2: In FY 2011 the IRS delivered all seven BSM project segments, meeting the schedule variance threshold. Five of the seven BSM projects were delivered within the cost variance (+/- 10%); however the two projects that did not meet the variance were due to projects that cost less than originally planned.

Note 3: Occupancy Cost Per Rentable Square Foot (RSF) measures replaced the Real Estate Portfolio Cost measure in FY 2010.

Appendix 3.
Summary of Stakeholder Comments 2011

The IRS Oversight Board reaches out to a wide variety of external stakeholders each year to listen to their views on tax administration and its impact on taxpayers. The Board consults regularly with external groups that include tax professionals, representatives of state tax departments, taxpayer advocacy groups, business associations, IRS advisory councils and committees, IRS employees, the National Treasury Employees Union (NTEU), and other groups that have an interest in tax administration.

During 2011, Board members and staff met with tax professionals and IRS employees at the six IRS Nationwide Tax Forums in Atlanta, Orlando, Dallas, San Jose, Las Vegas, and Washington, DC. In March, the Board also conducted a special tenth-anniversary public meeting featuring keynote addresses by the two former co-chairs of the National Commission on Restructuring the IRS, Senators Bob Kerrey and Rob Portman. The two panels at the meeting discussed challenges and opportunities of future tax administration.

The following summary captures the themes that emerged from stakeholder meetings this year:

The 2011 IRS Oversight Board Public Meeting

The 2011 Public Meeting was a special tenth anniversary event featuring remarks by the two former co-chairs of the National Commission on Restructuring the IRS, Senators Bob Kerrey and Rob Portman. The passage of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98) resulted in a wide range of changes that made for more effective tax administration over the past ten years, and created the Oversight Board. In addition, the event consisted of two panel discussions that addressed important issues in tax administration. Recognized experts in tax administration who have , Nancy Killefer and Pamela Olson, served as moderators and guided the panel discussions. Ms. Killefer and Ms. Olson have served in senior positions in the Treasury Department and in the private sector.

Selected Quotes from Senator Robert Kerrey's Remarks

- *The IRS is one of the least known and most under-appreciated administrative and technological successes in our country.*
- *The three most important things for a represented democracy to do are: raise taxes in a fair and equitable way; service the people who are paying those taxes; and attempt to collect from those who voluntarily decide that they will not obey the law.*
- *Quality customer service is as important to the IRS as is good exam and collection to a functioning tax system; the result is public confidence in the tax system.*

Selected Quotes from Senator Rob Portman's Remarks

- *The IRS must do more with less over the next few years to make the tax system as productive and efficient as possible.*
- *A challenge for the Oversight Board is to develop a small number of benchmark measures that Congress can use to monitor how well the IRS is doing its job.*

Panel One: People and Partnership Assets in Future Tax Administration
Panel 1 addressed changes in people and relationship factors such as IRS employees, demographics, expectations, attitudes, and new partnerships, and how these factors contributed to a future vision for tax administration.

The panel focused on two areas: developing the future IRS workforce and helping that workforce perform better by leveraging resources through closer relationships with the tax practitioner community and other community organizations. Panelists discussed what the future tax environment will look like for the IRS as it works to meet citizen and business demands for simplicity, reduced administrative burden and ease of access. A key challenge for the IRS will be cost efficiency. Panelists considered ways the IRS could turn this challenge into opportunities and can work together with others in the tax administration community to provide better services to taxpayers and reduce the burdens they face in complying with their tax obligations.

Panelists discussed how the IRS could meet the challenge of balancing program administrator responsibilities with taxpayer service and compliance responsibilities. Suggestions included expanded delivery channels, such as e-mail and social networking sites, to deliver new services to taxpayers when and how they want them. Panelists agreed that a cost effective, taxpayer centric and collaborative tax regime will lead to more voluntary compliance and allow the IRS to focus its efforts and resources on those who are non-compliant. Panelists also discussed how the IRS could re-set public expectations in times of reduced budgets and decided that although, while associated with time, a lean budget environment can be a detriment, it also can provide opportunities for innovation and reworking of standard operating procedures.

Panel Two: Business Processes and Technology Assets in Future Tax Administration

Panel 2 examined how changes in business processes, enabled by underlying technology improvements, can contribute to a future vision for tax administration. Panelists focused on several areas, including technology as an enabler of more effective enforcement efforts; new approaches for gathering, analyzing and using data; and the challenges of health care administration responsibilities.

As with Panel 1, participants on Panel 2 said a key challenge for the IRS will be cost efficiency, how to do more with less. Panelists discussed how the IRS can function in a reduced budget environment by looking at new methods of data analysis to make enforcement more targeted and effective. They discussed new tools and modernized systems the IRS might utilize to address the tax gap. One opportunity the IRS could pursue is to improve its noncompliance estimation process and begin using statistically valid and consistently applied approaches to developing compliance initiatives.

Panelists also discussed opportunities for the IRS to expand electronic services with taxpayers and the tax practitioner community to generate significant cost savings. One panelist identified a future-stated goal for the IRS to operate like an internet company, building technology, processes, investments and personnel to deliver services over the internet. In this context, the IRS would deliver future tax services through a modern, state-of-the-art technology web portal. Integrated with this would be electronic authentication and encrypted e-mail to allow for protected electronic communication between the IRS and taxpayers.

Recurring Themes from the Meetings with Employees and Practitioners at the 2011 IRS Nationwide Tax Forums

Themes from the Employee Meetings

Major Challenges Facing the IRS Over the Next Decade

- Budget constraints and the impact on employee engagement and retention
- Adequate staffing levels and loss of experienced staff
- IRS' technology limitations
- Outdated internal communications and processes
- Rapid expansion of international tax issues
- Constantly changing and complex tax code
- Need for a strong enforcement model

Employee Engagement and Retention

Employees said their biggest concerns during periods of possible budget reductions were employee engagement and retention. Although many were thankful for having a job, employees reported facing strains on their personal financial plans. Although federal salaries have been frozen and retirement benefits are at risk of decreasing, living expenses continue to rise. This makes it harder to keep employees motivated and especially difficult to stop newly hired employees from leaving IRS for other jobs with better opportunities.

Employees defined "being engaged" as having the feeling they are valued and believing they are contributing to an important mission. Others said being engaged means understanding your role on your team and in the organization and celebrating the achievements of both. Some employees said the current political environment, including proposed budget cuts and negative comments about government workers, adversely affects IRS employee morale and the work environment.

Non-monetary benefits such as workplace flexibilities can provide IRS with a powerful tool to boost employee engagement and retention at minimal costs. Employees like the family-friendly aspects of telework and alternative work schedules, and appreciate the ability to work from home periodically.

Employees value the availability of better, more flexible training. However, they also offered suggestions to improve existing training, such as: revising training materials to reduce redundancy within subsequent training modules and including more up-to-date information; avoiding the frequent changes in methods used to deliver training; and allowing more on-the-job time to apply the material taught before moving on to the next training subject. There was also concern expressed about the limited pool of experienced IRS staff who could serve as mentors and on-the-job (OJI) instructors.

Other Topics

Employees who recently moved into group manager positions felt that they benefited from the Front-Line Manager Readiness program; it gave them the opportunity to build a valuable network of contacts with other employees and future managers. They believe the program provided them with a realistic exposure to the role of management, as well as enabled them to assess, beforehand, whether they truly wanted to make the move into management.

Employees had a consensus opinion that OJI instructors are a critical component to the successful training of new employees. However, some employees felt there needs to be a more standardized OJI process to ensure consistency in operating procedures regardless of group location and that some OJIs were selected out of necessity rather than interest and experience because of extensive retirements of veteran staff.

Employees fear that IRS budget cuts, to either taxpayer service or enforcement, will bring in less revenue and lead to even more cuts. When employees were asked what the top priorities should be if there are significant budget cuts, retaining funding for staffing levels, training, and updated technology tools and processes were at the top of the list.

New employees must receive adequate training and developmental experience in order to deal with taxpayers and tax preparers on a professional level before they are moved into independent examination and collection work. Participants said that the lack of such developmental opportunities is both unfair to new employees and creates unnecessary burden for taxpayers and their preparers.

Employees believe that a careful review of existing standards is needed to reduce employee administrative burden and allow for the proper and efficient completion of case work. They also said there is a need for more cross-communication at the IRS and suggested forming “strike forces” with employees from across the agency to resolve critical issues.

In a discussion about how to increase the efficiency of IRS operations, employees said the IRS could improve its ability to communicate with taxpayers and practitioners if email was an option. They believe the IRS should develop a disclaimer or taxpayer permission form that could be used for simple questions and general correspondence.

Most employees who work in federal buildings said they were comfortable with their personal security in their work environment. Some employees who work in offices that are not located in federal buildings said they did not feel as secure. Security was also an issue at some walk-in sites located in strip mall facilities with no security.

Some employees said that case closing procedures and quality review standards are too numerous and cumbersome and create unnecessary administrative burden for employees. Other employees said the IRS should reduce the use of the Collection Due Process (CDP) program because it is viewed as an area of abuse by taxpayers can be an attempt to slow down collection processes. Both areas were cited as using an enormous amount of IRS resources with little result.

Themes from the Preparer Meetings

Major Challenges Facing the IRS Over the Next Decade

- Current economic conditions and IRS budget cuts
- Identity Theft
- Security challenges, in the context of e-filing, authentication and using e-mail
- Tax law complexity
- Tax legislation passed late in the calendar year
- Impact of international tax law and regulations, and efforts to address offshore tax abuse
- Challenges in hiring, training and retaining skilled IRS examination staff
- Improving the relationship and level of collaboration between IRS employees and tax return professionals so that tax matters can be resolved in a swifter and less contentious manner

The Impact of Preparer Regulation

Some preparers predict that long-time ("legacy") preparers will likely leave the market rather than face registration fees, testing, and e-file mandates. Other preparers suggest the real impact won't be known for several years until it is determined whether the IRS will have the ability and resources to find and address noncompliant, incompetent or fraudulent preparers. Preparers hope the new regulatory system will allow the IRS to upgrade preparer competency levels and eliminate many preparer errors that the IRS now tracks.

Preparers speculate the financial impact on the average return preparer will be around $500—reflecting the fees and expenses for obtaining a PTIN, providing fingerprints, completing the background checks, competency testing, and continuing professional education requirements.

Preparers expressed concerns as to how the IRS will educate taxpayers about the new requirements for tax return preparers, address the potential problem of "ghost" preparers (who fail to sign the returns they were paid to prepare) and explain to taxpayers differences in credentials that distinguish Certified Public Accountants, Enrolled Agents, and newly designated Registered Tax Return Preparers.

Some Enrolled Agents were concerned that the registration program, in the eyes of the public, will elevate the importance of "registered" tax return preparers. Enrolled Agents must pass a more difficult test and complete more continuing education hours, but they are concerned the term "registered" may carry more weight with the public than the term "enrolled."

Other Comments

Practitioners stressed the importance of finding a secure solution so they can communicate case-related matters with IRS staff through e-mail. They also said it is important for the IRS to find a way for taxpayers and their authorized representatives to access the taxpayer's account information and resolve tax account matters online. They said states such as California have already delivered such online capabilities, and that they hope the IRS' initiative to regulate all paid tax return preparers could be leveraged to help bring about such online capabilities at the federal level.

Preparers said if CADE 2 data is integrated into e-service applications, it will assist them in quickly solving taxpayer problems and should reduce burden for taxpayers, practitioners, and the IRS. Preparers agreed that with the CADE 2 system providing daily taxpayer account updates, faster refunds would be a positive outcome for their clients.

Preparers believe the IRS' Correspondence Examination Program is not working well. They complained that the automated system continues to issue statutory notices when the client has already responded; additional notices are not necessary and increase costs and burden for the taxpayer, practitioner and IRS. Some preparers experienced difficulty in effectively terminating collection efforts because the taxpayers response often did not reach the correct IRS employee or get processed timely.

Practitioners said they have difficulty reaching an IRS employee with the expertise and authority to resolve a problem; there is a great need for a cadre of IRS employees with technical expertise and authority to work with practitioners to quickly resolve taxpayer problems.

Preparers noted that tax administration efforts to address offshore tax evasion and underreporting by high wealth individuals and corporations have led to many additional reporting and other requirements. However, some of the new administrative burden also falls on moderate income taxpayers such as expatriated Americans living abroad on pension income and other small investments, and for whom the relative reporting costs can be quite substantial.

Preparers do not think there is consistent application of penalty relief and would like to see some flexibility in granting relief due to "severe economic conditions." Preparers also took exception to the view that an increase in penalties administered by the IRS is considered a "revenue raiser" by Congress. They believe the intent of the IRS imposing a penalty on a taxpayer should not be for the purpose of raising revenue, but for the purpose of providing a deterrent and enforcing the tax law.

Preparers also noted their difficulties with finding specific filing information, such as Form 8939 and information related to the special depreciation allowance in Publication 946. They pointed out that some information is very difficult to find, and that with the widespread use of tax filing software, practitioners may not intuitively turn to the tax form instructions for the information they seek. They commented on the timing issue, where the IRS completes the design of forms as soon as possible following a tax law change, and later updates form instructions and tax publications as time allows, before the beginning of filing season.

The preparers positively reported that the practitioner hot-line works well, except for some wait times, and there is general satisfaction with e-services. They also had very positive comments about IRS local liaison meetings with practitioners.

Appendix 4.
Biographies of Private-Life Members

Paul Cherecwich, Jr., Chairman
Retired Corporate Tax Counsel
Paul Cherecwich, Jr. is presently retired, having had a successful career as a tax attorney employed both in the business world and practitioner world. Employed by three Fortune 500 corporations, he retired in 2000 from Cordant Technologies, Inc. as Vice President of Tax and Tax Counsel. He subsequently joined the law firm of Miller & Chevalier, Chartered as "Of Counsel", from where he retired at the end of 2004. During his career he participated in several professional groups. As a result of his contributions, he was asked to serve leadership roles on several trade association tax committees. In addition, he was selected by his peers to be the 1997-1998 International President of The Tax Executives Institute (TEI), the preeminent association of corporate tax executives in North America. Mr. Cherecwich has served on the boards of several charitable organizations. He has also served on several government advisory groups, including the Massachusetts Governor's Management Task Force, the United States Trade Representative's Industry Advisory Committee on Customs, and the IRS Advisory Council, where he was selected to be the 2002 Chair. Mr. Cherecwich earned a B.E.E. from Rensselaer Polytechnic Institute, an M.B.A. from Northeastern University, a J.D. (*cum laude*) from Suffolk University Law School, and an LL.M. (taxation) from Boston University School of Law.

E. Edwin Eck
Professor, University of Montana School of Law
Edwin Eck has been a member of the school's faculty since 1981. He teaches courses in Federal Tax Procedure and Practice, Estate and Gift Taxation, and Wills and Trusts. From 1995 to 2009, he served as dean of the school. During his tenure as an administrator, the School focused on practice skills as well as legal theory. The School's required clinical program expanded to 17 clinics, certificate programs in alternative dispute resolution and natural resources were added, and a joint J.D./M.B.A. program was established. Additionally, the School substantially increased its continuing legal education programs with sessions held at rural Montana venues. Prior to serving as dean, Mr. Eck also practiced law and served the estate planning and estate administration needs of owners of small businesses, including farmers and ranchers. Mr. Eck has served as a law clerk to U.S. District Court Judge James F. Battin and was an Assistant U.S. Attorney for the District of Montana. Mr. Eck earned a B.A. from Carleton College (*magna cum laude*), a J.D. from the University of Montana School of Law, and an LL.M. (in taxation) from Georgetown University Law Center. He is a member of Phi Beta Kappa. He chairs the Oversight Board's Operations Support Committee.

Robert M. Tobias
Director of Public Sector Executive Education, American University
Robert M. Tobias is a professor, Director, Key Executive Leadership Programs, and Director of the Institute for the Study of Public Policy Implementation at American University in Washington, D.C. Mr. Tobias left the National Treasury Employees Union (NTEU) in 1999 after 31 years. He served as General Counsel from 1970 to 1983, and as National President from 1983 to 1999. At NTEU, and as a member of the President's National Partnership Council, Mr. Tobias focused on establishing cooperative/collaborative labor-management relationships in the federal government. In 1996, President Clinton appointed him to the National Commission on Restructuring the IRS. Mr. Tobias also was a member of the IRS Executive Committee. He is a graduate of the University of Michigan, where he received a Master's degree in Business Administration, and from The George Washington University, where he received his law degree. He chairs the Oversight Board's Operations Committee.

Raymond T. Wagner, Jr.

Vice President – Government & Public Affairs, Enterprise Holdings, Inc.

Raymond T. Wagner Jr. is Vice President of Government & Public Affairs for Enterprise Holdings, Inc., headquartered in St. Louis Missouri. His prior government service includes serving as Director of Revenue for the State of Illinois. He also served an earlier term as Director of Revenue for the State of Missouri. He has been an Adjunct Professor of Law at Washington University School of Law. After graduating from University of Missouri-Kansas City School of Law, he served as Law Clerk for the Chief Justice of the Missouri Supreme Court. He received his Master of Business Administration and undergraduate degrees from St. Louis University. He also holds a Master of Laws-Taxation degree from Washington University School of Law. Previously, Mr. Wagner served a term as Chairman of the Oversight Board, and also chaired the Oversight Board's Operations Support Committee.

Deborah L. Wince-Smith

President, Council on Competitiveness

Deborah Wince-Smith is the president & CEO of the Council on Competitiveness, a group of CEOs, university presidents and labor leaders committed to driving U.S. competitiveness. She has more than 20 years of experience as a senior U.S. government official, including as the first Assistant Secretary for Technology Policy in the Department of Commerce. She is a Senate-confirmed member of the IRS Oversight Board and a member of the Board of Directors of the NASDAQ OMX Group, Inc. Ms. Wince-Smith also serves on the Board of Governors for the Argonne National Laboratory, the Smithsonian National Board and the boards of several other public and private organizations. Ms. Wince-Smith is the president of the newly formed Global Federation of Competitiveness Councils, whose creation she led. Ms. Wince-Smith is chairman of the World Economic Forum's Global Council on Global Competitiveness and is a member of the Science & Technology in Society Forum Council. Ms. Wince-Smith earned a degree in classical archaeology and graduated *magna cum laude* and Phi Beta Kappa from Vassar College. She earned her master's degree from King's College, Cambridge University. In December 2006 she received an honorary Doctor of Humanities degree from Michigan State University.

Appendix 5.
FY2011 IRS Oversight Board Operations

During FY2011, the Board engaged in a variety of activities, including convening four full Board meetings as well as meeting more frequently at the committee level. The full Board meetings occurred on the following dates:

- December 16, 2010
- March 2-3, 2011
- May 5, 2011
- September 27, 2011

On March 2, 2011, the Board held a special public meeting to mark the tenth anniversary of the IRS Oversight Board. The two former co-chairs of the National Commission on Restructuring the IRS, Senators Bob Kerrey and Rob Portman, addressed the meeting. The meeting featured two panels. The first panel, moderated by former Board Chair Nancy Killefer, discussed *People and Partnership Assets in Future Tax Administration*. Panelists were:

- Claudia Hill, EA, MBA, President of TaxMam, Inc.
- Joel Slemrod, Professor of Economics, University of Michigan
- Elizabeth Tucker, IRS Deputy Commissioner, Operations Support
- Thomas Dohrmann, partner, McKinsey & Company

The second panel, moderated by Pamela Olson, Skadden, Arps Tax Group Head, discussed *Business and Technology Assets in Future Tax Administration*. Panelists were:

- Mark Matthews, Esq., Morgan Lewis, Tax & Litigation Practice Group
- Terry Milholland, IRS Chief Technology Officer
- Eric Toder, Fellow, Urban Institute
- Dan Maurer, Senior Vice President, Consumer Group, Intuit

A summary of the discussion and themes emerging from the meeting can be found on the Board's web site, *www.irsoversightboard.treas.gov*.

During FY2011, the Oversight Board developed four reports: the Board's 2010 *Annual Report to Congress*, its *Electronic Filing 2010 Annual Report to Congress*, a budget report that presented the Board's recommendations on the FY2012 IRS budget, and the Board's annual *Taxpayer Attitude Survey.* The first two reports are statutorily required; the other two were discretionary on the part of the Oversight Board. All reports are available on the Board's web site.

The Board continued conducting outreach to various external stakeholders and IRS employees to hear independent perspectives of IRS progress. In addition to the March public meeting, the Oversight Board was represented at all six IRS Nationwide Tax Forums during the summer of 2011. At these meetings, each attended by approximately 2,000 or more tax professionals, the Oversight Board sought out the opinions of attendees on IRS operations, and conducted small group meetings with both tax professionals and employees to discuss tax administration issues.

In addition, the Board visited the IRS' Austin campus on July 19, 2011. Board members received briefings on the Offshore Voluntary Disclosure Initiative; Accounts Management (AM) Taxpayer Assurance Program (AMTAP); Individual Taxpayer Identification Number (ITIN) Program; the examination mail handling business improvement project; and the Automated Collection System (ACS) call center, where it met several staff hired through the Wounded Warrior program. The Board also met with IRS Volunteer Income Tax Assistance (VITA) partners in San Jose.

The Oversight Board focused on a number of strategic issues during the year, including the CADE 2 program, preparer regulation, ACA implementation, electronic tax administration, enterprise risk management, human capital strategic planning, research strategic planning, the IRS collection process, approval of the FY2013 budget submitted to the Department of the Treasury, employee engagement, and development of IRS long-term performance measures.

There were no changes in Board membership during FY2011. The Board currently has two vacancies, four seats that are being filled by members in holdover status, and one seat filled by a member with a term that expires in September 2013.

The three committees of the Oversight Board also met periodically in person or by telephone. The Operations and Operations Support Committees each met several times during the year with IRS executives to review progress in meeting performance goals for major IRS operational and support divisions. Measures of interest included customer and employee satisfaction, quality, and selected productivity goals.

In keeping with the Oversight Board's statutory responsibility to review the selection, evaluation, and compensation of senior IRS executives, the Executive Committee conducted a thorough review of the performance commitments of senior IRS executives in the beginning of the fiscal year, followed by a review of the performance evaluations and proposed bonuses for the same executives at the conclusion of the fiscal year.

In keeping with the RRA 98 requirement to report Oversight Board travel expenses to Congress, the Board incurred $65,960 in travel expenses for Board members and staff in FY2011, primarily for travel to and from Board and Board committee meetings, and to attend the Nationwide Tax Forums.

IRS Oversight Board

Contact Information

IRS Oversight Board
1500 Pennsylvania Avenue, NW
Washington, DC 20220

www.irsoversightboard.treas.gov

Ph: 202-622-2581

Charles A. Lacijan
Staff Director